

Department of Economic Affairs

I. Growth Performance: Overview

Sustained growth and resilience from a global slowdown characterize the developments of the Indian economy in 2006-08 and in the current year so far. Economy for most part of 2007-08 was largely successful in containing domestic inflationary pressures despite a global hardening of commodity prices and an upsurge in capital inflows, which had made liquidity management difficult. Continuing upsurge in global commodity prices, particularly of food, fuels and metals is however, putting pressure on domestic prices. Containing the pass through of this increase and maintaining domestic price stability has become a major policy challenge. The overall macroeconomic fundamentals, continued to inspire confidence and optimism. Buoyant growth of government revenues has made it possible to strengthen fiscal consolidation as mandated under the Fiscal Responsibility and Budget Management Act (FRBMA), at the same time enabled a significant expansion of social sector programmes. There has been an acceleration in domestic savings and investment rates to provide the resources for meeting the 9.0 per cent (average) growth target for the Eleventh Five-Year Plan.

Economic growth: GDP growth during 2007-08 (at factor cost at constant 1999-2000 prices) as revised by Central Statistical Organisation (CSO) on May 30, 2008 is placed at 9.0 per cent. Though this represents a moderate deceleration from a high growth of 9.4 per cent in 2005-06 and 9.6 per cent in 2006-07 (quick estimates), it is higher than 8.7 per cent assessed at the advance estimates stage in February 2008. The deceleration in growth in 2007-08, though moderate, was in the manufacturing and services sectors. Notwithstanding a moderation in growth in 2007-08, on a trend basis GDP growth improved from an average of 3.5 per cent per annum during 1950-80 to 8.8 per cent in the last five years.

Table 1: National Income Aggregates							
	2004-05	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
At 1999-2000 prices	(Rs in billions)				(year-on-year increase %)		
GDP (at factor cost)	23,884	26,128	28,643	31,229	9.4	9.6	9.0
NDP (at factor cost)	21,260	23,266	25,496	27,188	9.4	9.6	9.1
NNI (at factor cost)	21,045	23,069	25,305	27,677	9.6	9.7	9.4
GDP (at market prices)	26,016	28,420	31,174	33,988	9.2	9.7	9.0
At current prices							
GDP (at factor cost)	28,777	32,757	37,901	43,037	13.8	15.7	13.6
NDP (at factor cost)	25,488	28,969	33,556	38,113	13.7	15.8	13.6
NNI (at factor cost)	25,264	28,708	33,258	37,895	13.6	15.8	13.9
GDP (at market prices)	31,494	35,803	41,458	47,131	13.7	15.8	13.7
Per Capita Income (current prices Rs)	23,199	25,956	29,642	33,299	11.9	14.2	12.3
Per Capita Income (1999-00 prices Rs)	19,325	20,858	22,553	24,321	7.9	8.1	7.8

Table 2: GDP Parameters- Historic Trends							
	1950-51	1960-61	1970-71	1980-81	1990-91	2006-07	2007-08
GDP at factor cost: At current prices Rs Bil	96	162	422	1302	5110	37901	43037
GDP at factor cost: At current prices US \$ Bil	20	34	56	165	285	838	1070
GDP at current market prices Rs Bil.	99	172	457	1438	5687	41458	47131
GDP at current market prices US \$ Bil	21	36	60	182	317	916	1172
Per capita income at Current Prices (Rs)	255	350	720	1741	5365	29642	33299
Per capita income (NNP) in US \$	53	73	95	220	299	655	828

Economic growth and in particular the growth in per capita income is a broad quantitative indicator of improvement in the welfare of residents. The rate of growth of per capita income moderated to 7.8 per cent in 2007-08, compared to a growth of 8.1 per cent in the previous year. However, average growth of 7.9 per cent in the last three years indicates that on an average, income would now double within ten years, well within a generation. Per capita income in 2007-08 is placed at Rs.33, 299 at current prices and Rs.24, 321 at 1999-2000 prices.

On a long-term, India's GDP at factor cost increased from US\$ 20 billion in 1950-51 to US\$ 838 billion in 2006-07. GDP at current market prices was estimated at US\$ 916 billion in 2006-07. At the prevailing exchange rate, GDP at current market prices estimated at Rs 47,131 billion in 2007-08, makes India move to a trillion dollar plus economy. Sustained growth and appreciation in its exchange rate led to a sharp increase of 27.9 per cent in India's GDP in dollar terms in 2007-08 compared to a growth of 13.7 per cent in rupee terms. With increasing integration, share of merchandise trade (imports +exports) increased from 12.2 per cent of GDP in 1950-51 to 34.1 per cent in 2006-07. Inclusion of services will increase this share further.

Sectoral Shares: Growth of GDP during the last two decades was characterized by structural changes in the economy. Share of agriculture and allied sector in GDP declined from about 32 per cent in 1990-91 to 24.0 per cent in 2001-02 and further to 17.8 per cent in 2007-08. There was a corresponding gain in the share of the services sector from 41.0 per cent in 1990-91 to 51.0 per cent in 2001-02 and further to 55.6 per cent in 2007-08. The share of industry (comprising mining and quarrying, manufacturing, electricity, gas and water supply and construction) in GDP, which was 27.2 per cent in 1990-91, declined to 25.0 per cent in 2001-02, but improved to 26.6 per cent in 2007-08.

Sector(s)	Growth (Per Cent)					Percentage Share in GDP				
	2003-04	2004-05	2005-06	2006-07	2007-08	2003-04	2004-05	2005-06	2006-07	2007-08
at Constant 1999-2000 prices	10.0	0.0	5.9	3.8	4.5	21.7	20.2	19.6	18.5	17.8
1. agriculture, forestry & fishing	10.0	0.0	5.9	3.8	4.5	21.7	20.2	19.6	18.5	17.8
Industry	7.4	10.3	10.1	11.0	8.5	25.6	26.2	26.4	26.7	26.6
2. mining & quarrying	3.1	8.2	4.9	5.7	4.7	2.2	2.2	2.1	2.0	2.0
3. manufacturing	6.6	8.7	9.0	12.0	8.8	15.0	15.1	15.1	15.4	15.4
4. electricity, gas & water supply	4.8	7.9	4.7	6.0	6.3	2.3	2.3	2.2	2.1	2.1
5. construction	12.0	16.1	16.5	12.0	9.8	6.1	6.6	7.1	7.2	7.3
Services	8.5	9.1	10.3	11.1	10.8	52.7	53.6	54.0	54.7	55.6
6. trade, hotels, transport & communication	12.0	10.7	11.5	11.8	12.0	25.0	25.8	26.3	26.8	27.5
7. financing, insurance, real estate & bus. Services	5.6	8.7	11.4	13.9	11.8	13.4	13.5	13.8	14.3	14.7
8. community, social & personal services	5.4	6.9	7.2	6.9	7.3	14.3	14.2	14.0	13.6	13.4
10. GDP at factor cost	8.5	7.5	9.4	9.6	9.0	100.0	100.0	100.0	100.0	100.0

GDP Quarterly growth: On August 29, 2008, CSO released the GDP figures for the first quarter of 2008-09. The overall GDP growth at factor cost is placed at 7.9 per cent compared to a growth of 9.2 per cent in first quarter of 2007-08. There has been a moderation in growth spread across all the three broad sectors of agriculture, industry and services. GDP estimates are, however, higher than the forecast made by the Economic Advisory council (EAC), which had projected the growth for the full year of 2008-09 at 7.7 per cent. GDP at current prices recorded a higher growth. GDP at current market prices, used as the denominator for calculating the ratios like tax/GDP, deficits/GDP or savings and investment grew by 16.1 in Q1 of 2008-09 compared to a growth of 15.9 per cent in Q1 of 2007-08 and 13.7 per cent in 2007-08 full year.

	2006-07				2007-08				2008-09
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Agriculture	1,22,660	98,606	1,68,666	1,40,305	1,28,042	1,03,199	1,78,741	1,44,354	1,31,831
Industry	1,80,770	1,83,475	1,93,929	2,07,965	1,97,194	2,00,773	2,09,863	2,23,810	2,10,717
Services	3,60,215	3,73,632	3,98,738	4,35,348	3,99,713	4,13,012	4,40,055	4,84,106	4,39,809
GDP at factor cost	6,63,645	6,55,713	7,61,333	7,83,618	7,24,949	7,16,984	8,28,659	8,52,270	7,82,357
Rate of growth (per cent)									
Agriculture	2.7	3.2	4.0	4.9	4.4	4.7	6.0	2.9	3.0
Industry	10.8	11.0	10.4	11.6	9.1	9.4	8.2	7.6	6.9
Services	11.5	11.5	11.1	10.3	11.0	10.5	10.4	11.2	10.0
GDP at factor cost	9.6	10.1	9.3	9.7	9.2	9.3	8.8	8.8	7.9

Savings and Investment: Robust growth in GDP has been generating additional savings and investment necessary for capacity expansion and sustained growth. The increasing trend in gross domestic savings as a proportion of GDP observed since 2001-02 continued with the savings ratio rising from 26.4 per cent in 2002-03 to 29.8 per cent in 2003-04, 31.8 per cent in 2004-05, 34.3 per cent in 2005-06 and further to 34.8 per cent in 2006-07. Annual rate of growth of domestic savings in last four years averaged 22 per cent. The savings from the private corporate sector were particularly buoyant. There was a turnaround in public sector savings, which reversed their negative contribution to domestic savings in 2003-04. Because of an upsurge in the savings from the private corporate sector and reversal of the negative trend by the public sector savings, the relative share of the household sector in gross domestic savings declined from 94.3 per cent in 2001-02 to 68.4 per cent in 2006-07. Out of a total increase of 8.4 per cent in the ratio of domestic savings to GDP between 2002-03 and 2006-07, an increase of 7.7 percentage points came from an increase in the public sector and private corporate sector savings.

In line with the rise in the rate of gross domestic savings beginning 2001-02, there was an increase in the rate of Gross Domestic Capital Formation (GDCF) or investment. The revival in gross domestic capital formation (GDCF) that commenced in 2002-03 was followed by a sharp rise in the rate of investment for five consecutive years. GDCF was placed at 35.9 per cent of GDP in 2006-07. The annual growth of GDCF in last four years averaged 24.5 per cent compared to a growth of 14.0 per cent in GDP at current market prices. During 2001-04, domestic savings exceeded domestic investment indicating a current account surplus. The year 2004-05 saw the reversal of this trend. This reversal of the saving-investment balance should be viewed as a correction of the domestic supply-demand balance, occurring through above normal increase in demand during 2005-06 and 2006-07. While the ratio of public sector GDCF to GDP remained generally stable, there was an increase in the ratio of private sector GDCF, from 19.5 per cent in 2003-04 to 27.0 per cent in 2006-07.

CSO has not yet released estimates of savings and investment for 2007-08. However, the GDP aggregates based on sources of demand indicate that the ongoing trend of an increase in investment and savings relative to GDP will continue. The ratio of gross fixed capital formation, valuables and change in stocks to GDP is estimated to have improved from 36.0 per cent in 2006-07 to 37.5 per cent in 2007-08 and further to 37.9 per cent in Q1 of 2008-09. Similarly, the ratio of aggregate consumption (private and Government consumption) to GDP has declined from 66.1 per cent in 2006-07 to 65.4 per cent in 2007-08. Savings, which are the residual, are therefore, expected to increase relative to GDP.

Year	Gross Domestic Savings				Gross domestic capital formation (GDCF)		
	Public	House hold	Private Corporate	Total	Public	Private	Total
1999-2000	-0.8	21.1	4.5	24.8	7.4	17.9	25.9
2000-2001	-1.8	21.6	3.9	23.7	6.9	16.6	24.3
2001-2002	-2.0	22.1	3.4	23.5	6.9	16.7	22.8
2002-2003	-0.6	23.2	3.9	26.4	6.1	18.6	25.2
2003-2004	1.1	24.4	4.4	29.8	6.3	19.5	28.2
2004-2005	2.2	23.0	6.6	31.8	6.9	23.4	32.2
2005-2006	2.6	24.2	7.5	34.3	7.6	25.8	35.5
2006-2007	3.2	23.8	7.8	34.8	7.8	27.0	35.9

II Sectoral Growth Profile

Agriculture Production: The Directorate of Economics & Statistics in its fourth advance estimates of agricultural production (July 2008) has placed total foodgrains production at 230.7 million tonnes, 13 million tonnes higher than the 217.3 million tonnes in 2006-07 (final estimate). For three consecutive years, foodgrains production has recorded an average annual increase of over 10 million tonnes. While the production of *kharif* foodgrains is expected to be 10.4 million tonnes (9.4 per cent) higher than the production in 2006-07, *rabi* production is expected to be higher by 3.0 million tonnes. The production of cereals is expected to be 215.6 million tonnes as against 203.1 million tonnes in 2006-07 (final estimate). The production of pulses is expected to increase by 0.9 million tonnes (6.4 per cent). In case of wheat and rice, the production in 2007-08 at 78.4 million tonnes and 96.4 million tonnes, respectively, is an all time high. Production of oilseeds is also expected to increase from 24.3 million tonnes in 2006-07 to 28.8 million tonnes in 2007-08 (a growth of 18.7 per cent). This is largely due an increase of 92 per cent in the production of groundnut. Similarly, the production of cash crops, particularly cotton, has remained buoyant. With global cotton output declining from 122 million bales in 2006-07 to 119 million bales in 2007-08, India has emerged as a major exporter of raw cotton.

In the first advance estimates of *kharif* production for 2008-09, production of foodgrains, oilseeds, cotton and sugarcane is estimated at 115.3 million tonnes, 17.9 million tonnes, 23.9 million bales and 294.7 million tonnes, respectively. While compared to the First Advance Estimates of 2007-08, this represents an increase of 2.8 per cent in foodgrains production, compared to the Fourth Advance Estimate, it shows a decline of 4.7 per cent. Decline is across most coarse cereals and pulses. Rice output, however, is expected to record modest gains. Output of *kharif* oilseeds, cotton and sugarcane is also expected to decline. DAC has usually been conservative in their First Advance Estimates. In 2007-08, latest update (Fourth Advance Estimate) was higher compared to the first advance estimates by 7.8 per cent for foodgrains, 23 per cent for oilseeds and 12.7 per cent for cotton.

There has been a loss of dynamism in the agriculture and allied sectors in recent years. A gradual degradation of natural resources through overuse and inappropriate use of chemical fertilizers has affected the soil quality resulting in stagnation in the yield levels. Public investment in agriculture has declined and this sector has not been able to attract private investment because of lower/unattractive returns. New initiatives for extending irrigation potential have had a limited success during the Tenth Five Year Plan, only a little over 8 million ha could be brought under irrigation, and only three-fourths of that could be utilized. The agricultural extension system has generally not succeeded in reducing the gap between crop yields that could have been obtained through improved practices. The Government of India has launched the National Food Security Mission and the Rashtriya Krishi Vikas Yojana to rejuvenate agriculture and improve farm income. The National Food Security Mission for rice, wheat and pulses launched after the NDC Meeting of May 29, 2007 has envisaged increasing the production of rice, wheat and pulses by 10 million tonnes, 8 million tonnes and 2 million tonnes, respectively by 2011-12.

Crop	2003-04	2004-05	2005-06	2006-07	2007-08	2007-08	2008-09
	Final Estimates				4th AE	1st Advance Estimates	
Rice	88.5	83.1	91.8	93.4	96.4		
Kharif	78.6	72.2	78.3	80.2	82.8	80.2	83.3
Rabi	9.9	10.9	13.5	13.2	13.6		
Wheat	72.2	68.6	69.4	75.8	78.4		
Coarse Grains	37.6	33.5	34.1	33.9	40.7		
Kharif	32.2	26.4	26.7	25.6	31.7	26.6	27.4
Rabi	5.4	7.1	7.3	8.3	9.0		
Pulses	14.9	13.1	13.4	14.2	15.1		
Kharif	6.2	4.7	4.9	4.8	6.4	5.5	4.7
Rabi	8.7	8.4	8.5	9.4	8.7		
Foodgrains	213.2	198.4	208.6	217.3	230.7		
Kharif	117.0	103.3	109.9	110.6	121.0	112.2	115.3
Rabi	96.2	95.1	98.7	106.7	109.7		
Oilseeds	25.2	24.4	28.0	24.3	28.8		
Kharif	16.7	14.1	16.8	14.0	19.8	16.1	17.9
Rabi	8.5	10.2	11.2	10.3	9.0		
Cotton #	13.7	16.4	18.5	22.6	25.8	22.9	23.9
Jute & Mesta #	11.2	10.3	10.8	11.3	11.2	12.2	11.1
Sugarcane	233.9	237.1	281.2	355.5	340.6	345.6	294.7

Million bales of 170 kilograms each ## Million bales 180 kilograms each

Industrial Production: The overall growth rate of index of industrial production (IIP) during 2007-08 was 8.5 percent as compared to a growth of 11.6 per cent in 2006-07 and 8.2 percent in 2005-06. The growth rate achieved by the mining, manufacturing and electricity sectors 2007-08 was 5.1 percent, 9.0 percent and 6.4 percent, respectively as compared to 5.4 percent, 12.5 percent and 7.2 percent, respectively during 2006-07. As per the use-based classification, in 2007-08, capital goods maintained a double-digit growth for the sixth year

in a row. There was, however, a deceleration in growth across all the broad sectors with consumer durables recording a negative growth.

A disaggregated product level data of the manufacturing products reveal that in 2007-08 there was a deceleration in growth in food products; cotton textiles; wool, silk and manmade fibres; textile products; paper products; rubber products; non-metallic mineral products; metals and metal products; machinery and equipments; and auto and transport equipments. High interest rates and appreciating rupee affected the performance in consumer durables and export sectors, particularly the sectors that had low import content and predominantly local resource based. Of the 17 broad manufacturing sectors, only 6 sectors (beverages; jute textiles; wood products; leather products; chemicals; and other industries) with a combined weight of 23.4 per cent in the Index of Industrial Production had a higher growth in 2007-08 compared to the growth in previous year.

Table 7: PERCENTAGE CHANGE IN SECTORWISE INDEX OF INDUSTRIAL PRODUCTION						
(Base: 1993-94=100)						
	2004-05	2005-06	2006-07	2007-08	April-September	
					2007	2008
General	8.4	8.2	11.6	8.5	9.5	4.9
Mining	4.4	1.0	5.4	5.1	4.9	3.8
Manufacturing	9.2	9.1	12.5	9.0	10.0	5.2
Electricity	5.2	5.2	7.2	6.4	7.7	2.5
Use-Based Classification						
Basic goods	5.5	6.7	10.3	7.0	9.3	3.7
Capital goods	13.9	15.8	18.2	18.0	20.2	10.6
Intermediate goods	6.1	2.5	12.0	9.0	9.9	0.1
Consumer goods	11.7	12.0	10.1	6.1	5.5	7.7
<i>Of which</i>						
Consumer durables	14.4	15.3	9.2	-1.0	-3.2	6.8
Consumer non-durables	10.8	11.0	10.4	8.6	8.7	8.0

In the current year, CSO has released the IIP data for April-September 2008. Overall growth in April-September 2008 is estimated at 4.9 per cent year-on-year basis compared to a growth of 9.5 per cent in April-September 2007. There has been a continuation of the moderate growth phase. Deceleration in growth was significant for manufacturing and electricity sectors, and somewhat moderate for the mining sector.

At the disaggregated manufacturing level, only 5 industrial sub groups of the manufacturing sector (out of a total of 17 groups) reported an improved performance (beverages and tobacco; textiles products, paper products, transport and auto parts and metal products). These groups had a weight of 14.4 per cent in IIP. IIP growth in September 2008 at 4.8 per cent did indicate improvement over the growth of 1.4 per cent in August 2008. Performance of consumer durables and capital goods at 13.1 per cent and 18.8 per cent, respectively, in September 2008 do provide some comfort about capacity additions and consumer spending.

Industry Group	Weight out of 1000	April-March			April-September	
		2005-06	2006-07	2007-08	2007	2008
Food Products	90.83	2.0	8.6	7.0	13.3	-1.4
Beverages & Tobacco	23.82	15.7	11.0	12.0	9.2	23.3
Cotton Textiles	55.18	8.5	14.8	4.3	6.1	-0.5
Wool, Silk & Man Made Textiles	22.58	0.0	7.8	4.8	4.7	-0.2
Jute Textiles	5.90	0.5	-15.8	33.1	18.9	-5.5
Textile Products	25.37	16.3	11.5	3.7	3.2	3.8
Wood Products	27.01	-5.7	29.1	40.5	78.8	-10.4
Paper Products	26.52	-0.9	8.7	2.7	0.9	3.0
Leather products	11.39	-4.8	0.6	11.7	9.7	-0.3
Chemicals	140.02	8.3	9.6	10.6	8.7	6.1
Rubber & Petroleum	57.28	4.3	12.9	8.9	11.9	-4.2
Non Metallic Mineral products	43.97	11.0	12.8	5.7	8.6	0.6
Basic Metals	74.53	15.8	22.9	12.1	18.5	6.2
Metal Products	28.10	-1.1	11.4	-5.6	-1.1	1.3
Machinery & Equipments	95.65	12.0	14.2	10.4	11.2	9.8
Transport Equipments	39.84	12.7	15.0	2.9	1.8	12.8
Others	25.59	25.2	7.8	19.8	12.8	-1.1

In terms of the infrastructure sectors, in 2007-08, cargo handled at major ports, export and import cargo handled by civil aviation and telephone connection (some segments) sectors recorded an improved performance. Performances of sectors other than addition to telecom switching capacity were generally comparable. In the first five months of the current year, telecommunication segment and freight handling (railway revenue earning traffic and export cargo through aviation) maintained comparable/better performance.

Of the real sectors of manufacturing industries, having a bearing on infrastructure, 2007-08 (comprising electricity, coal, crude and refining, steel, cement and fertilizers) improved performances were reported from coal and natural gas sectors. Fertilizers had a negative growth. The information in respect of 6 industries having a bearing on infrastructure, for which information is released by the Ministry Of Industry, for the month of April-September 2008, indicate that while the composite index shows a deceleration in growth compared to April-September 2007, coal mining, however, report better performance.

Sector	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	Y-o-Y Variation (%)			
							April-August	2006-07	2007-08	Apr-Aug 08-09
		Financial Year								
Power	BU	587.4	617.5	662.5	704.5	300.0	7.3	6.3	2.2	
Coal	MT	377.3	401.4	425.0	450.5	171.6	5.9	6.0	7.3	
Steel	MT	42.2	46.8	52.5	55.2	22.9	12.2	5.2	4.3	
Cement	MT	133.6	147.8	161.7	174.3	74.9	9.4	7.8	5.6	
Fertilizers	MT	15.4	15.5	16.1	14.7	5.9	3.3	-8.6	-1.5	
Petroleum										
I) Crude Oil	MT	34.0	32.2	34.0	34.1	14.0	5.6	0.4	-0.9	
ii) Refinery	MT	127.1	130.1	146.6	156.1	67.8	12.6	6.5	4.8	
iii) Natural Gas	MCM	31,763	32,205	31,747	32,274	13,890	-1.4	1.7	5.4	
Roads : Up-gradation of National highways										
I) NHAI	Kms.	-	727	636	1683	990			108.0	
ii) NH(O) & BRDB	Kms.	1388	1883	1686	1897	418			-37.6	
Railways (Revenue freight traffic)	MT	602.8	667.2	728.8	794.2	336.0	9.2	9.0	8.6	
Cargo Handled at major Ports	MT	383.7	423.6	463.8	519.2	221.6	9.5	11.9	8.4	
Civil Aviation										
I) Export cargo handled	Lakh Tonnes	4.35	4.67	4.84	5.20	2.31	3.6	7.5	7.7	
ii) Import cargo handled	Lakh Tonnes	2.75	3.19	3.81	4.56	1.97	19.4	19.7	6.3	
iii) Passenger traffic at international terminals	Lakh Nos	149.3	168.4	188.8	211.3	90.2	12.1	11.9	7.9	
iv) Passenger traffic at Domestic terminals	Lakh Nos	238.1	302.6	405.5	488.8	191.0	34.0	20.6	-5.2	
Telecommunications										
I) Additional in switching capacity	Lakh Lines	67.1	124.8	96.0	71.6	31.1	-23.0	-25.4	54.7	
ii) Telephone connections	Lakh Nos.	69.6	155.5	125.0	224.0	101.1	-19.6	79.2	33.8	
iii) Cell phone connections	Lakh Nos.	148.7	281.7	522.3	722.3	332.8	85.4	38.3	24.9	

Source: Capsule report on infrastructure sector performance. MoSPI

III. Inflation, Money Supply and Bank Credit

Inflation: The headline inflation rate for the 31st week ending November 1, 2008 was 8.98 per cent compared to 3.35 per cent in the corresponding week last year (week-ending November 3, 2007). The downward trend in inflation, which had gained momentum from May 2007, has reversed since December 2007. Inflation, which declined to less than 4 per cent as on August 18, 2007 and had remained so for 20 consecutive weeks thereafter, started firming up from December 2007. During December-March 2007-08, there was an increase in the prices of coal, iron ore, iron and steel products and prices of petroleum products not covered under the administered price mechanism. In first week of June 2008, administered prices of petrol, high-speed diesel and LPG were revised upwards. Together with a continued

hardening of global commodity prices, these developments led to a sharp increase in rate of inflation. Inflation, however, has again been moderating and last eight weeks have witnessed a decline in the wholesale price index (price level). Inflation declined to single digit after remaining in double-digit territory for 21 weeks.

The average inflation of 52 weeks at 8.6 per cent on November 1, 2008 was higher than 52-weeks average of 5.1 in the corresponding period of the previous year. Average 52-week inflation for primary articles at 8.9 per cent as on November 1, 2008 was, however, lower than the average 52-week inflation of 9.1 per cent in the previous year. Build up inflation in first 31 weeks of the current year at 3.9 per cent is higher than the build up of 2.7 per cent in the first 31 weeks of 2007-08. All the three broad groups witnessed an increase in inflation reflected in a higher build up in the current year.

Major contributors to inflation were: mineral oils (19.0 per cent); basic metals and alloys (16.9 per cent); edible oils, oil seeds and oil cake (6.9 per cent); raw cotton (3.5 per cent); iron ore (3.7 per cent); sugar (3.7 per cent); milk (3.0 per cent); and chemical products (12.2 per cent). Prices of pulses were also witnessing an upward pressure.

Table 10: Wholesale Price Index (1993-94=100), Inflation and Contribution to Inflation of major commodities/groups

Table		04-Feb-07	05-May-07	04-Aug-07	03-Nov-07	02-Feb-08	03-May-08	02-Aug-08	01-Nov-08
Index									
All Commodities	100.0	208.9	212.0	213.8	216.1	218.8	230.5	241.4	235.5
Primary Articles	22.0	215.0	220.2	223.9	224.3	227.8	241.1	249.6	249.0
Food Articles	15.4	215.1	220.0	222.1	223.8	219.5	233.4	237.3	244.1
Foodgrains	5.0	213.7	210.5	215.7	217.0	218.8	222.7	229.5	234.0
Fruits & Vegetables	2.9	220.9	243.4	242.4	238.6	212.3	256.6	249.9	270.7
Milk	4.4	199.5	204.0	210.8	216.1	216.1	221.6	225.0	229.4
Non Food Articles	6.1	198.8	202.2	212.3	209.9	219.6	228.0	248.4	233.1
Minerals	0.5	418.4	453.5	429.8	424.7	595.8	652.6	656.2	606.0
Fuel and Power	14.2	320.7	322.0	322.4	326.5	333.6	346.6	380.4	356.6
Manufactured Products	63.7	181.8	184.6	186.0	188.6	190.1	201.0	207.5	203.8
Edible Oils	2.8	165.2	166.1	171.3	174.4	185.2	183.8	199.2	184.4
Oil Cakes	1.4	206.7	229.7	240.0	263.3	286.0	325.4	359.2	281.5
Chemicals	11.9	193.6	202.0	202.8	204.8	208.4	219.1	223.3	224.6
Cement	1.7	199.4	211.6	215.4	219.5	220.9	223.3	222.1	225.1
Basic Metals	8.3	241.0	244.3	243.9	247.6	248.9	295.0	300.1	286.8
Machinery & Equipments	8.4	160.2	163.2	166.1	167.7	167.7	172.9	176.3	176.5
Inflation									
All Commodities	100.0	6.58	5.74	4.39	3.35	4.74	8.73	12.91	8.98
Primary Articles	22.0	11.69	11.38	10.13	4.57	5.95	9.49	11.48	11.01
Food Articles	15.4	10.99	10.61	9.25	2.47	2.05	6.09	6.84	9.07
Foodgrains	5.0	10.27	7.95	8.23	2.70	2.39	5.80	6.40	7.83
Fruits & Vegetables	2.9	13.22	16.79	14.77	-4.56	-3.89	5.42	3.09	13.45
Milk	4.4	9.43	8.17	10.19	7.67	8.32	8.63	6.74	6.15
Non Food Articles	6.1	12.83	12.71	14.39	11.83	10.46	12.76	17.00	11.05
Minerals	0.5	17.17	15.63	0.84	-1.37	42.40	43.90	52.68	42.69
Fuel and Power	14.2	2.30	0.72	-1.98	-0.06	4.02	7.64	17.99	9.22
Manufactured Products	63.7	6.32	5.55	4.67	4.20	4.57	8.88	11.56	8.06

Edible Oils	2.8	15.44	14.71	13.59	11.87	12.11	10.66	16.29	5.73
Oil Cakes	1.4	14.26	24.43	25.72	37.57	38.36	41.66	49.67	6.91
Chemicals	11.9	2.54	5.15	5.08	5.68	7.64	8.47	10.11	9.67
Cement	1.7	16.40	9.35	10.40	10.69	10.78	5.53	3.11	2.55
Basic Metals	8.3	16.71	10.19	5.68	3.90	3.28	20.75	23.04	15.83
Machinery & Equipments	8.4	7.30	8.44	7.72	7.16	4.68	5.94	6.14	5.25
Contribution									
Primary Articles	22.0	38.42	43.09	50.41	30.84	28.48	24.88	20.51	28.04
Food Articles	15.4	25.43	28.26	32.17	11.88	6.85	11.16	8.48	16.12
Foodgrains	5.0	7.73	6.75	9.13	4.08	2.58	3.30	2.50	4.39
Fruits & Vegetables	2.9	5.83	8.88	10.11	-4.75	-2.53	2.08	0.79	4.83
Milk	4.4	5.82	5.85	9.46	9.61	7.32	4.15	2.25	2.99
Non Food Articles	6.1	10.75	12.17	18.21	19.47	12.90	8.56	8.03	7.34
Minerals	0.5	2.30	2.58	0.19	-0.41	8.69	5.22	3.98	4.53
Fuel and Power	14.2	7.94	2.85	-10.27	-0.41	18.54	18.92	29.90	22.07
Manufactured Products	63.7	53.37	53.77	58.79	69.21	53.45	56.51	49.66	49.95
Edible Oils	2.8	4.72	5.10	6.28	7.28	5.57	2.64	2.79	1.42
Oil Cakes	1.4	2.83	5.55	7.72	14.54	11.34	7.32	6.11	1.33
Chemicals	11.9	4.44	10.27	12.99	18.75	17.84	11.03	8.86	12.18
Cement	1.7	3.77	2.72	3.90	5.24	3.76	1.09	0.42	0.50
Basic Metals	8.3	22.31	16.39	12.14	11.08	6.66	22.86	16.99	16.86
Machinery & Equipments	8.4	7.07	9.24	11.06	13.38	6.34	4.39	3.09	3.79

There has been substantial increase in international prices of essential commodities since 2004-05 for most of the commodity groups. However, domestic inflation was substantially contained through fiscal, monetary and administrative measures, including measures to improve domestic availability of some of the important consumer items. Given the commodity-centric drivers of inflation, many of the measures have been commodity-specific along the lines of duty rationalization/reduction, export restrictions towards better supply management. These measures have been supplemented by monetary measures aimed at macro demand management and a reduction in growth of liquidity. Customs duties were reduced to zero for wheat, pulses, cotton, edible oils (crude), maize, pig iron, mild steel products, met coke, ferro alloys and zinc. For butter oil and skimmed milk powder, a 10-percentage point reduction in duty was effected. Exports of wheat, non-basmati rice, pulses and edible oils were banned. General CENVAT rate for manufactured products was also reduced from 16 per cent to 14 per cent. Further, in order to insulate the vulnerable sections of society, the issue price for wheat and rice under public distribution system was kept stable at July 2002 levels. Even in case of petrol and diesel, recent increase in prices to consumers was restricted to 10-11 per cent, through a three-way burden sharing approach. Because of these measures, inflation for the 30 essential commodities at 7.7 per cent on November 1, 2008 was lower than the headline inflation.

In addition to the fiscal measures taken by the Government to manage supply side of inflation, monetary instruments were used by the Reserve Bank of India for demand management. The monetary measures included a gradual increase in CRR by 400 basis points, from 5.0 per cent until December 23, 2006 to reach 9.0 per cent effective August 30, 2008 and raising repo rates by 75 basis points in two tranches of 25 basis points on June 11, 2008 and 50 basis points on June 24, 2008 to reach 8.50 per cent. Repo rates have been

further raised by 50 basis points effective July 29, 2008 to reach 9.0 per cent. Since then however, due to global slowdown of economies leading to recessionary trends and a meltdown in commodity prices coupled with a liquidity squeeze, there has been a need to inject additional liquidity. Measures taken to address the current situation are expected to not to generate inflationary expectations.

Inflation measured in terms of consumer price indices generally ruled higher than WPI in 2007-08. This trend reversed in the current year. The year-on-year rate of inflation for August 2008 varied from a high of 10.3 per cent for CPI (Agricultural and Rural Labour) to 9.0 per cent for CPI (IW) as against WPI rate of 12.5 (provisional) per cent. In September, however, the gap between WPI and CPIs narrowed significantly, as the inflation measured in terms of CPI (AL) and CPI (RL) increased to 11.0 per cent and CPI-IW to 9.8 per cent. Normalising for the base of CPI-IW and WPI, however, indicate converging of these two inflation-measuring indices.

	WPI	CPI(IW)	CPI(UNME)	CPI(AL)	CPI(RL)
2005-06	4.42	4.41	4.74	3.85	3.85
2006-07	5.43	6.70	6.61	7.85	7.52
2007-08	4.67	6.20	5.93	7.45	7.19
APR, 2008	8.04	7.81	6.99	8.88	8.61
MAY, 2008	8.86	7.75	6.76	9.11	8.84
JUN, 2008	11.82	7.69	7.31	8.77	8.75
JUL, 2008	12.36	8.33	7.39	9.41	9.41
AUG, 2008	12.49 (prov)	9.02	8.54	10.29	10.29
SEP, 2008	12.04 (prov)	9.77	-	10.98	10.98

Money and credit: Broad Money supply (M_3) growth, on a year-on-year basis at 20.7 per cent as at end March 2008 was lower than 21.5 per cent a year ago, reflecting some deceleration in time deposits. Broad money growth, nonetheless, was strong with expansion in aggregate deposits. The primary source of monetary expansion, however, continued to be the accretion to net foreign exchange assets. M_3 growth exceeded the targeted growth of 17-17.5 per cent for 2007-08 set by the Reserve Bank of India in their Annual Policy Statement of April 2007. The Annual Policy Statement for 2008-09 mentions that money supply rose above the indicative projections persistently in 2006-07 and 2007-08 because of accretion of foreign currency assets and cyclical acceleration in credit and deposit growth. It is, therefore, necessary to moderate monetary expansion and plan for a moderate monetary expansion of 16.5 to 17.0 per cent in 2008-09 consistent GDP growth and inflation outlook and to ensure macroeconomic and financial stability in the period ahead.

In first 6 months (October 24, 2008) M_3 grew by 19.9 per cent higher than the growth target set by RBI but lower as compared to the growth in the comparable period of the

previous year and. Growth of M3 since end March 2008 (in the current fiscal year so far) at 8.3 per cent was also lower.

As sources to M3, year on year, credit to commercial sector and government expanded faster. Higher growth in banking sector's non-monetary liabilities (which negatively affects M3), and a lower growth of net foreign exchange assets, particularly from end March 2008 largely neutralised the increase in other sources of growth in broad money. In the current fiscal so far, credit to government and commercial sector expanded at a faster rate. Higher growth of banking sector's net non-monetary liabilities could partly neutralise the growth in other sources of M3 growth.

Item		Outstanding as on			Financial year variations (%)		Year-on-year variations (%)	
		2006-07 Mar 31	2007-08 Mar-31	2008-09 Oct 24	2007-08	2008-09	2007-08	2008-09
A	M3	33,16,093	40,06,722	43,38,172	9.1	8.3	22.8	19.9
B	Components (1+2+3+4)							
1	Currency with the Public	4,82,906	5,67,476	6,10,924	4.8	7.7	12	20.7
2	Demand deposits with banks	4,75,687	5,74,408	5,19,727	-4.4	-9.5	14.3	14.3
3	Time deposits with banks	23,50,004	28,55,769	32,02,538	12.8	12.1	26.8	20.8
4	Other deposits	7,496	9,069	4,982	-35.2	-45.1	-12.2	2.6
C	Sources (1+2+3+4-5)							
1	Credit to Government	8,34,235	9,07,077	9,86,352	2.4	8.7	5.5	15.5
2	Credit to commercial sector	2,13,078	25,69,912	28,36,533	4.8	10.4	21	27.0
3	Net Foreign exchange assets	9,13,179	12,95,131	13,07,838	16.7	1.0	33	22.7
4	Government's currency liability	8,261	9,324	9,624	7.2	3.2	10	8.7
5	Banking sector's net non monetary liabilities	5,69,660	7,74,723	8,02,174	-4.3	3.5	5.1	47.1

Targeted M3 growth for 2008-09 is 16.5-17 per cent.

Source- Reserve Bank of India- Weekly Report

Non-food credit in the current fiscal so far recorded a sharper increase as compared to the previous year. Investments by the commercial banks, however, witnessed a decline in current year, as was the case last year in the comparable period.

RBI in its midterm review of its Annual Policy Statement for 2008-09 have mentioned that it would be its endeavour to modulate the monetary overhang generated by sustained expansion of money supply since 2005-06. This it considers necessary "in order to ensure that inflationary pressures are not fuelled and that the current stance of monetary policy is not attenuated by expansionary monetary conditions. Accordingly, as stated in the First Quarter Review, it is necessary to "moderate the rate of money supply to 17 per cent in 2008-09 and the growth of non-food credit, including investments in bonds/debentures/shares of public sector undertakings and private corporate sector and CPs, to around 20 per cent."

	2006-07	2007 – 2008			2008 – 2009		
	Outstanding Mar 31	Outstanding as on 2007		Variation	Outstanding as on 2008		Variation
		Mar. 30	Oct 26		Mar. 28	Oct 24	
Bank Credit	15,07,077	19,31,189	20,26,709	95,519	23,61,914	26,15,041	2,53,128
				(4.9)			(10.7)
Food Credit	40,691	46,521	35,866	-10,654	44,399	48,255	3,855
Non-Food Credit	14,66,386	18,84,669	19,90,842	1,06,173	23,17,515	25,66,787	2,49,272
				(5.6)			(10.8)
Investments	79,464	83,545	78,147	-5,398	95,506	95,158	-348
Commercial Paper	4,821	8,978	6,889	-2,089	13,045	15,517	2,472
Shares Issued	12,775	18,352	20,559	2,207	26,410	27,950	1,540
(a) PSUs	2,274	2,127	2,001	-126	3,023	3,427	404
(b) Private Corporate Sector	10,501	16,225	18,557	2,333	23,387	24,523	1,136
Bonds/Debentures Issued	61,868	56,216	50,700	-5,516	56,051	51,690	-4,361
(a) PSUs	32,345	28,595	25,123	-3,472	27,382	23,158	-4,225
(b) Private Corporate Sector	29,523	27,620	25,576	-2,044	28,669	28,533	-136

The picture since then has changed significantly, due to global slowdown of economies leading to recessionary trends and a meltdown in commodity prices coupled with a liquidity squeeze, there has been a need to inject additional liquidity. Domestic liquidity concerns also emerged because of decline in the foreign exchange reserves of RBI due to sale of foreign currencies, mop up of liquidity through the issue of securities under Market stabilization Scheme and an increase in currency holding of the public, due partly as precautionary measure. RBI, therefore, attempted to ease the liquidity situation by reducing CRR (350 basis points to reduce effective rate to 5.50 per cent) and repo rates (by 150 basis points to reduce the effective rate to 7.50 per cent) in first half of October together with a one percentage point reduction in SLR holdings of the banks Undertaken earlier in mid-September. A number of other steps have been taken with a view to infuse liquidity since the middle of September 2008.

IV. External Sector

Foreign trade and balance of payments: Merchandise imports and exports in 2007-08 were placed at US\$ 240 billion and US\$ 159 billion respectively. During 2007-08, exports increased by 25.8 percent and imports increased by 29.0 percent. While POL imports increased by 39.4 percent, non-oil imports increased by 24.4 per cent. The year-on-year growth of imports and exports during 2007-08 in rupee terms at 14.8 per cent and 12.0 per cent, respectively, was considerably lower than the growth in dollar terms because of an appreciating of rupee. Merchandise trade deficit was estimated at US\$ 80.6 billion in 2007-08 compared to US\$ 59.4 billion in 2006-07. India enjoyed a current account surplus in 2002-03 and 2003-04 as invisibles inflows exceeded the trade deficit. However, in the last three years, there has been a moderate current account deficit, which was placed at US\$ 9-10 billion or

1.1 to 1.2 per cent of GDP in 2005-07. In 2007-08 robust growth of 36.0 per cent in net invisibles (US\$ 72.7 billion) could only partly offset the high levels of trade deficit and resulted in a current account deficit of US\$ 17.4 billion equivalent of 1.5 per cent of GDP. The pace of capital inflows in 2007-08 surged to a level of US\$ 109.6 billion (equivalent of 9.4 per cent of GDP) – more than double that of the level of previous year (US\$ 46.4 billion). The main contribution to the surge in capital flows came from foreign investment, both portfolio and FDI. Net ECBs inflows also rose by about 37.2 per cent. Net FDI into India has grown from US\$ 8.5 billion in 2006-07 to US\$ 15.5 billion in 2007-08. Net portfolio investment shot up from a level of US\$ 7.1 billion to US\$ 29.3 billion in the same period.

Item	April-March	April-March	April-March	April- September	
	2005-06	2006-07	2007-08 (R)	2007	2008
Exports	103.1	126.4	162.9	72.6	95.0
Imports	149.2	185.7	251.4	111.7	154.7
POL	44.0	57.1	79.6	34.6	55.1
Non-POL	105.2	128.6	171.8	77.1	99.7
Trade balance	-46.1	-59.4	-88.5	-39.1	-59.8
Rate of Growth					
Exports	23.4	22.6	28.9	18.2	30.9
Imports	33.8	24.5	35.4	27.3	38.6
POL	47.3	30.0	39.4	16.5	59.2
Non-POL	28.8	22.2	33.6	32.8	29.3

In the current fiscal, merchandise trade data is available for April-September 2008. Both exports and imports registered an impressive growth of 30.9 per cent and 38.6 per cent, respectively. Oil imports, however, grew faster (59.2 per cent) than non-oil imports (29.3 per cent). Rate of growth of exports and imports in rupee terms at 36.7 per cent and 44.9 per cent during Apr-Sep 2008 was higher than that in dollar terms indicating depreciation of rupee in this period. There has, however, been a deceleration in growth of exports in September 2008. Growth of exports in September 2008 declined to 10.4 per cent.

Although the share of USA in our exports has declined from 13.3 percent in 2007-08 (April-June) to 10.4. percent in 2008-09 (April June), it is still the top most destination of India's exports. India is diversifying its exports to various other countries. For example, during the first quarter of this financial year there has been an increase in share of India's exports to China, Singapore, Netherlands and Saudi Arabia. China remained the major source of imports with a share of 11.20 percent in India's total imports followed by UAE (7.4 percent) , Saudi Arabia (7.1 percent), USA (5.1) in the first quarter of this year.

Preliminary BOP estimates released by the RBI for the first quarter of the current year (i.e. April – June 2008) point to a moderation in capital inflows and a widening of the trade and current account deficits on a quarter-on-quarter basis. The current account deficit was placed at US\$ 10.7 billion primarily due to large growth of imports (33.3 per cent) vis-à-vis

exports (22.2 per cent). Net invisibles at US\$ 20.9 billion could only partly offset the trade deficit of US\$ 31.6 billion. Foreign direct investment (net) inflows remained buoyant at US \$ 10.1 billion. While portfolio (net) flows remained negative (US \$ -4.2 billion) in the first quarter of 2008-09, there was a slump in net ECBs from US \$ 7.0 billion in 2007-08 (Q1) to US \$ 1.6 billion in 2008-09 (Q1).

Table 15: Balance of payments and its financing (US\$ Billions)							
	2002-03	2003-04	2004-05	2005-06 R	2006-07 P	2007-08 (P)	2008-09 (proj)
Exports, f.o.b	53.8	66.3	85.2	105.2	128.1	158.5	202.8
Imports, c.i.f	64.5	80.0	118.9	157.1	191.3	248.5	321.9
Trade Balance	-10.7	-13.7	-33.7	-51.9	-63.2	-90.1	-119.1
Invisibles (net)	17.0	27.8	31.2	42.0	53.4	72.7	88.2
Current A/C Balance	6.3	14.1	-2.5	-9.9	-9.8	-17.4	-30.9
External Assistance (net)	-3.1	-2.9	1.9	1.7	1.8	2.1	3.0
Commercial Borrowings (net)	-1.7	-2.9	5.2	2.5	16.2	108.0	73.1
Foreign Investment (net)	4.2	13.7	13.0	15.5	15.5	44.8	32.5
FDI (net)	3.2	2.4	3.7	3.0	8.5	15.5	26.5
Inflows	5.2	4.5	6.1	9.2	23.0	32.3	43.5
Portfolio	0.9	11.4	9.3	12.5	7.1	20.3	2.0
Total Capital A/C	10.6	17.3	28.6	25.0	46.4	108.0	73.1
Reserve Movement	-17.0	-31.4	-26.2	-15.1	-36.6	-92.2	-42.2
As % of GDPmp							
Exports	10.6	11.1	12.2	13.0	14.0	13.5	15.7
Imports	12.7	13.3	17.0	19.4	20.9	21.2	24.9
Trade balance	-2.1	-2.3	-4.8	-6.4	-6.9	-7.7	-9.2
Current Account balance	1.3	2.3	-0.4	-1.2	-1.1	-1.5	-2.4

Foreign Exchange Reserves (excluding Gold, SDRs and Reserve tranche position in IMF) were US\$ 299 billion on March 28, 2008. In April-October, 2008 (October 31, 2008), while there was an addition to reserves in rupee terms, reflecting its depreciation, in dollar terms, there was a decline in accretion to reserves US \$ by 55 billion. Reserves have continued to decline since May 2008 indicating continued intervention by RBI in maintaining exchange rate stability. In October 2008, reserves witnessed a decline in rupee terms as well.

Reserve Bank of India's six-country-trade-weighted real effective exchange rate (REER) with 1993-94 as the base was 110.9 in March 2008 and 105.6 as on September 19, 2008 (the latest date for which REER is available). REER had reached 115.8 in October 2007 and with a gradual deceleration to its current level, real effective appreciation has moderated. REER of rupee with base 2006-07 was 100 as on September 19, 2008 indicating re-alignment of exchange rate.

Exchange rate developments

The surge in capital inflows in 2007-08 (9.4 per cent of GDP) led to a sharp appreciation of the rupee (9.0 per cent between end-March 2007 and end-March 2008). While FII flows turned negative in January 2008, quarter-on-quarter, there was a growth of 46 per cent in capital account inflows in Q4 of 2007-08. Thus, the exchange rate of the rupee against the dollar, driven primarily by capital flows in the recent years, remained in the range of Rs.39.5 to 40.5 per US dollar during January-March 2008. The depreciation in the exchange rate of the rupee against the US dollar in the current financial year can be analysed in terms of two sub-periods, namely April –August 2008 and since September 2008 till October 17, 2008. This is necessary to distinguish the impact of the recent most global events from the earlier general depreciation. After remaining in the same range of Rs.39.5 to 40.5 per US dollar in April 2008, it started moving up in 2nd week of May 2008 to reach a level of Rs.42.95/US \$ by end-June 2008. After trading in a range of Rs. 39.89-40.02 per US dollar till April 22, 2008, the rupee fell conclusively below Rs. 40.00 per US dollar on April 24, 2008. The rupee depreciated continuously thereafter, reflecting lower levels of net capital inflows primarily on account of outflows by FIIs (US \$ 4.2 billion during the first quarter of 2008-09), increased demand for dollars by corporates and bearish stock market conditions. The exchange rate of the rupee was Rs.43.79 per US dollar on August 29, 2008 reflecting a depreciation of 9.5 per cent with respect to the level of Rs.39.98 on April 2, 2008. The slowdown in commercial borrowings by Indian corporates, and a general market expectation of a much larger current account deficit this year compared to the 1.5 percent of GDP deficit last year are some of the other factors responsible for the level of depreciation.

The depreciation was sharper since September 2008 mainly on account of the unprecedented global financial crisis resulting in sharp rise in the demand for US dollars from domestic market participants and foreign institutional investors in the backdrop of inadequate supply. The exchange rate reached the level of Rs.50.09 per US dollar as on October 27, 2008. With RBI intervention to smoothen the volatilities arising from the global financial turmoil and bring about orderly conditions in the foreign exchange markets, there was a drawdown of the foreign exchange reserves. The stock of foreign exchange reserves stood at US \$ 258.4 billion on October 24, 2008; a decline of US \$51.3 billion in the current financial year so far.

A number of measures have been taken on an on-going basis to address the tight supply conditions in the forex market. These, *inter alia*, include: On September 16, 2008, RBI had announced market measures which *inter-alia*, stated that in the foreign exchange markets: The Reserve Bank will continue to sell foreign exchange (US dollar) through agent banks to augment supply in the domestic foreign exchange market or intervene directly to meet any demand-supply gaps. The Reserve Bank would either sell the foreign exchange directly or advise the bank concerned to buy it in the market. All the transactions by the Reserve Bank will be at the prevailing market rates and as per market practice. The interest rate ceiling on FCNR (B) deposits of all maturities has been fixed at Libor/Euribor/Swap rates for the corresponding maturities minus 50 basis points for the respective foreign currencies instead of Libor/Euribor/swap rates for the corresponding maturities minus 75

basis points for the respective foreign currencies. The interest rate ceiling on NR(E)RA for one to three years maturity should not exceed the Libor/Euribor/Swap rates plus 50 basis points for US dollar of corresponding maturity instead of Libor/Euribor/Swap rates for US dollar of corresponding maturity. Measures announced by the RBI on October 15, 2008: Currently, the interest rate ceiling on FCNR(B) deposits of all maturities has been fixed at Libor/Swap rates for the corresponding maturities minus 25 basis points for the respective foreign currencies. In view of the prevailing market conditions, it was decided: to increase, with immediate effect, the interest rate ceiling on FCNR (B) deposits by 50 basis points, i.e., to Libor/Swap rates plus 25 basis points. Currently, the interest rate ceiling on NR(E) RA for one to three years maturity should not exceed the Libor/Swap rates plus 50 basis points for US dollar of corresponding maturity. In view of the prevailing market conditions, it was decided to increase, with immediate effect, the interest rate ceiling on NR(E)RA deposits by 50 basis points, i.e., to Libor/Swap rates plus 100 basis points. Earlier, to obviate the difficulties arising out of a tightening in the money and foreign exchange markets, the public sector oil marketing companies were facilitated through special market operations for oil bonds in June –July 2008. Besides the above measures taken by the RBI, the SEBI has relaxed the restrictions on offshore derivative instruments and decided to increase the Foreign Institutional Investors (FIIs) investment limit in corporate bonds from \$3 billion to US\$ 6 billion.

FDI inflows

India has evolved a liberal and transparent policy on foreign direct investment (FDI) over time. FDI occurs either through the automatic route or the Government approval route. Except for a small negative list, FDI is allowed mostly on the automatic route. A liberal investment regime is being complemented by a tax regime that is moderate and stable and laws that are taxpayer-friendly. The FDI equity inflows in the month of September, 2008 were US \$ 2.56 billion. This represents a growth of 259% over the same month in the previous year (during September, 2007, the FDI equity inflows were US \$ 713 million). During April-September 2008, the FDI equity inflows were US \$ 17.21 billion. This represents a growth of 137% over the previous year (FDI equity inflows during April-September 2007 were US \$ 7.25 billion). The sectors attracting the highest FDI equity inflows during April to August, 2008 have been the services sector (US \$ 2.34 billion), construction activities including roads and highways (US \$ 1.64 billion), housing and real estate (US \$ 1.62 billion) and computer hardware and software (US \$ 1.36 billion). The cumulative amount of FDI equity inflows from August 1991 to July 2008 stood at Rs. 3, 82, 167 crore.

V. India's External Debt

1. External Debt Outstanding

Latest data available on India's External debt relates to end-June 2008. Table 16 gives data on total external debt outstanding at end-June 2008.

S.No.	Components	Debt Outstanding at end		
		March 2007 PR	March 2008 PR	June 2008 QE
(1)	(2)	(3)	(4)	(5)
1	Multilateral	35,337	39,312	39,662
2	Bilateral	16,061	19,613	18,683
3	IMF	0	0	0
4	Export credit	7,051	10,267	11,004
5	Commercial borrowings	41,657	62,019	61,458
6	NRI Deposits (long-term)	41,240	43,672	42,612
7	Rupee debt	1,947	2,016	1,866
8	Long-term debt (1 to 7)	143,293	176,899	175,285
9	Short-term debt	26,376	43,820	46,018
10	Total debt (8+9)	169,669	220,719	221,303

PR: Partially Revised QE: Quick Estimates

Disaggregated data on external debt outstanding in terms of both Rupees as well as US dollars are provided for end-June 2008 along with the data for end-March from 2004 to 2007 in Annex I and II.

2. Government (Sovereign) and Non-Government (Private) External Debt

Government external debt comprises 'external debt on Government account' and 'other Government external debt'. Table 17 gives data on the various components of Government external debt, together with Private debt.

S.No.	Component	At end-March			End-June 2008 QE
		2006	2007 PR	2008 PR	
1	4	5			6
A	Sovereign Debt (I+II)	45,278	48,167	56,551	55,203
	<i>(As a per cent of GDP)</i>	(5.6)	(5.1)	(4.8)	-
I.	External Debt on Govt. Account under External Assistance (a+b)	43,510	46,155	52,297	51,433
a.	Multilateral	29,997	32,515	36,005	36,195
b.	Bilateral	13,513	13,640	16,292	15,238
II.	Other Govt. External Debt (a+b)	1,809	2,012	4,254	3,770
a.	Defence	1,539	1,440	1,494	1,386
b.	FII investment in Govt. Securities	270	572	2,760	2,384
B.	Private Debt	92,855	121,502	164,168	166,100
	<i>(As a per cent of GDP)</i>	(11.6)	(12.8)	(14.0)	-
C.	Total External Debt (A+B)	138,133	169,669	220,719	221,303

* : Not worked out for the broken period
R: Revised; QE: Quick Estimates

3. External Debt Indicators

As a result of cautious external debt policy, key indicators of total external debt namely debt to GDP ratio, ratio of short-term to total debt and short-term debt to foreign currency assets have remained in the comfortable zone (Table 18).

Year	External Debt (US\$ billion)	Debt Service Ratio (per cent)	Ratio of Foreign Exchange Reserves to Total Debt (per cent)	Ratio of Total External Debt to GDP (per cent)	Ratio of Concessional Debt to Total Debt (per cent)	Ratio of Short-term Debt to Foreign Exchange Reserves (per cent)	Ratio of Short-term Debt to Total Debt (per cent)
1	2	3	4	5	6	7	8
1990-91	83.8	35.3	7.0	28.7	45.9	146.5	10.2
1991-92	85.3	30.2	10.8	38.7	44.8	76.7	8.3
1992-93	90.0	27.5	10.9	37.5	44.5	64.5	7.0
1993-94	92.7	25.4	20.8	33.8	44.4	18.8	3.9
1994-95	99.0	25.9	25.4	30.8	45.3	16.9	4.3
1995-96	93.7	26.2	23.1	27.0	44.7	23.2	5.4
1996-97	93.5	23.0	28.3	24.6	42.2	25.5	7.2
1997-98	93.5	19.5	31.4	24.3	39.5	17.2	5.4
1998-99	96.9	18.7	33.5	23.6	38.5	13.2	4.4
1999-00	98.3	17.1	38.7	22.0	38.9	10.3	4.0
2000-01	101.3	16.6	41.7	22.5	35.4	8.6	3.6
2001-02	98.8	13.7	54.7	21.1	35.9	5.1	2.8
2002-03	104.9	16.0*	72.5	20.3	36.8	6.1	4.5
2003-04	111.6	16.1**	101.2	17.8	36.1	3.9	4.0
2004-05	133.0	6.1 ^	106.4	18.6	30.9	12.5	13.3
2005-06	138.1	9.9 #	109.8	17.2	28.6	12.9	14.1
2006-07 PR	169.7	4.8	117.4	17.8	23.3	13.2	15.5
2007-08 PR	220.7	5.4	140.3	18.7	19.9	14.1	19.9
End-June 2008 QE	221.3	3.9	141.0	--	19.3	14.7	20.8

* Works out to 12.4 %, with the exclusion of pre-payment of US\$ 3.4 billion.
** Works out to 8.2 %, with the exclusion of pre-payment of US\$ 3.8 billion and redemption of Resurgent India Bonds (RIBs) of US\$ 5.5 billion.
^ Works out to 5.7 % with the exclusion of pre-payment of US\$ 381 million.
Works out to 6.3 %, with the exclusion of India Millennium Deposits (IMDs) repayments of US\$ 7.1 billion and pre-payment of US\$ 23.5 million.
PR: Partially Revised; QE: Quick Estimates; --: Not worked out for broken period.
Note : NRO deposits are included under NRI deposits from 2005-06 onwards. Suppliers' credits up to 180 days and FII investment in short-term debt instruments are included under short-term external debt since 2004-05.

4. Total Debt Service Payments

External debt service payments, which more than doubled from US\$ 9.5 billion in 2004-05 to US\$ 19.5 billion in 2005-06 due to redemption of India Millennium Deposits (US\$ 7.1 billion), softened to US\$ 11.9 billion in 2006-07 and again rose to US\$ 16.5 billion during 2007-08 (Table 19). The debt service ratio too, which had jumped up to 9.9 per cent in 2005-06, came down steeply to 4.8 per cent in 2006-07, reflecting a moderation in debt

service payments combined with expansion in external current receipts. However, they increased to 5.4 per cent during 2007-08.

Sl. No.	Components	2004-05	2005-06	2006-07 PR	2007-08 QE
1	2	3	4	5	6
1.	External Assistance	2,855	2,652	2,904	3,241
i.	Repayments	2,129	1,945	1,922	2,099
ii.	Interest	726	707	982	1,142
2.	External Commercial Borrowings	4,530	14,839	6,819	11,317
i.	Repayments	3,571	11,824	4,236	6,119
ii.	Interest	959	3,015	2,583	5,198
3.	NRI Deposits	1,353	1,497	1,969	1,813
i.	Interest	1,353	1,497	1,969	1,813
4.	Rupee Debt Service	417	572	162	121
i.	Repayments	417	572	162	121
5.	Total Debt Service (1 to 4)	9,155	19,560	11,854	16,492
i.	Repayments (i+iii+vi)	6,117	14,341	6,320	8,339
ii.	Interest (ii+iv+v)	3,038	5,219	5,534	8,153
6.	Debt Service Ratio	6.1[^]	9.9^{^^}	4.8	5.4
7.	Interest payments to current receipts ratio	2.0	2.7	2.3	2.7

R: Partially Revised QE: Quick Estimates.
#: Current receipts exclude official transfers.
[^] Works out to 5.7 % with the exclusion of pre-payment of US\$ 381 million.
^{**} Works out to 6.3 %, with the exclusion of India Millennium Deposits (IMDs) repayments of US\$ 7.1 billion and pre-payment of US\$ 23.5 million.

5. Sovereign Debt Service Payments

Table 20 below shows annual debt servicing of sovereign external debt which are included in the total debt service payments mentioned above.

Sl. No	Debt Service Payments	2004-05	2005-06R	2006-07R	2007-08 QE
1	2	3	4	5	6
I.	Debt Service Payments under External Assistance (A+B)	2,262	2,272	2,722	2,696
A	Multilateral (i + ii)	1,044	1,192	1,543	1,738
	i. Principal	737	790	959	1066
	ii. Interest	307	402	584	672
B	Bilateral (iii +iv)	1,218	1,080	1,179	958
	iii. Principal	884	776	868	713
	iv. Interest	334	304	311	245
II.	Other Government Debt Service Payments (v + vi)	417	572	162	121
	v. Principal	417	572	162	121
	vi. Interest	0	0	0	0
III.	Total Government External Debt Service Payments (I+II)	2,679	2,844	2,884	2,817
	vii. Total Principal (i+ iii + v)	2,038	2,138	1,989	1,900
	viii. Total Interest (ii + iv + vi)	641	706	895	917

Note: Debt service payments on account of FII investment in government securities are not included.
R: Revised; QE: Quick Estimates

6. International Comparison

- A comparison of India's external debt position with that of other indebted developing countries as published in World Bank's Global Development Finance, 2008, indicates that among the top ten debtor countries of the developing world, India's position was *fifth* in 2006 in terms of the quantum of external debt, after China, Russian Federation, Turkey and Brazil (Table 21).
- India's debt to Gross National Income (GNI) ratio at 17.8 per cent in 2006 was the second lowest after China.
- The element of concessionality in India's external debt portfolio was the second highest after that of Indonesia.

Sl. No.	Countries	Total debt stocks (US\$ billion)	Ratio of Concessional debt to Total debt (%)	Ratio of Short-term debt/ Total debt (%)	Ratio of Total debt to Gross National Income (%)	Debt Service Ratio (%)
1	2	3	4	5	6	7
1	China	323	10.9	53.7	12.2	2.5
2	Russian Fed.	251	0.6	16.1	26.2	13.8
3	Turkey	208	2.0	20.4	51.7	33.2
4	Brazil	194	1.3	10.5	18.7	37.3
5	India	170	23.3	15.5	17.8	4.8
6	Mexico	161	0.9	4.6	19.5	18.9
7	Indonesia	131	27.1	25.2	37.5	16.6
8	Poland	126	0.9	17.0	38.7	24.7
9	Argentina	122	1.1	28.7	58.6	31.6
10	Hungary	108	1.1	13.9	102.7	33.1

Source: Data for India are as published by national authorities for 2006-07 and those for other countries are at end-December 2006 as available on World Bank's Global Development Finance, 2008.

7. External Debt Management Policy

The prudent external debt management policies pursued by the Government, particularly since 1991, have helped in containing the growth of accumulation of external debt and maintaining a comfortable external debt position. These policies include emphasis on raising funds on concessional terms with longer maturities, monitoring of short-term debt, prepaying high cost loans and encouraging non-debt creating capital flows.

External Debt Outstanding							
(US \$ billion)							
Sl. No	Category	End-March					End-June 2008 QE
		2004	2005	2006	2007 PR	2008 PR	
1	2	3	4	5	6	7	8
A	Total Long Term Debt (1 to 7)	107.2	115.3	118.6	143.3	176.9	175.3
		(96.0)	(86.7)	(85.9)	(84.4)	(80.1)	(79.2)
1	Multilateral	29.3	31.7	32.6	35.3	39.3	39.7
2	Bilateral	17.3	17.0	15.8	16.1	19.6	18.7
3	IMF	0.0	0.0	0.0	0.0	0.0	0.0
4	Export Credit	4.7	5.0	5.4	7.1	10.3	11.0
5	External Commercial Borrowings	22.0	26.4	26.5	41.7	62.0	61.5
6	NRI Deposits	31.2	32.7	36.3	41.2	43.7	42.6
7	Rupee Debt	2.7	2.3	2.1	1.9	2.0	1.9
B	Short-term Debt	4.4	17.7	19.5	26.4	44.3	46.0
		(4.0)	(13.3)	(14.1)	(15.6)	(19.9)	(20.8)
	<i>Of Which,</i>						
	i) NRI Deposits (up to 1 year)	0.3	0.0	0.0	0.0	0.0	0.0
	ii) Trade related Credits	4.1	16.3	19.4	26.0	43.8	45.3
	a. Above 6 months	4.1	7.5	8.7	12.0	22.9	24.3
	b. Up to 6 months	0.0	8.8	10.7	14.0	20.8	21.0
	iii) FII Investment in Govt. T-Bills & Other Instruments	0.0	1.5	0.1	0.4	0.7	0.7
C	Grand Total (A+B)	111.6	133.0	138.1	169.7	220.7	221.3
		(100)	(100)	(100)	(100)	(100)	
	Memo Item:						
	Total NRI Deposits	31.5	32.7	36.3	41.2	43.7	42.6
	(both long & short term)	(28.2)	(24.6)	(26.3)	(24.3)	(19.8)	(19.3)
	<i>Of which,</i>						
	1) NR(E) RA	20.6	21.3	22.1	24.5	26.7	25.6
	2) FCNR (B)	10.9	11.4	13.1	15.1	14.2	14.0
	3) NRO Deposits	negligible		1.1	1.6	2.8	3.0

Note: Figures in brackets indicate percentage to total external debt.

PR: Partially Revised; QE: Quick Estimates

Annex II

External Debt Outstanding							
Sl. No	Category	End-March					(Rs. crore)
		2004	2005	2006	2007 PR	2008 PR	End-June 2008 QE
		3	4	5	6	7	8
A	Total Long Term Debt (1 to 7)	471,827	504,274	528,989	624,687	707,331	752,849
1	Multilateral	131,105	138,897	145,503	154,053	157,181	170,349
2	Bilateral	77,084	74,530	70,302	70,019	78,428	80,244
3	IMF	0	0	0	0	0	0
4	Export Credit	20,553	21,976	24,175	30,740	41,051	47,260
5	Commercial Borrowings	95,611	115,533	117,991	181,602	247,986	263,962
6	NRI Deposits	135,618	143,267	161,834	179,788	174,623	183,019
7	Rupee Debt	11,856	10,071	9,184	8,485	8,062	8,015
B	Short-term Debt	19,251	77,528	87,155	115,088	175,214	197,648
	<i>Of Which,</i>						
	i) NRI Deposits (up to 1 year)	1,321	0	0	0	0	0
	ii) Trade related Credits	17,930	71,173	86,531	113,276	172,611	194,630
	a. Above 6 months	17,930	32,922	38,788	52,188	91,501	104,630
	b. Up to 6 months	0	38,251	47,743	61,088	81,110	90,113
	iii) FII Investment in Govt. T-Bills & Other Instruments	0	6,355	624	1,732	2,603	2,905
C	Grand Total (A+B)	491,078	581,802	616,144	739,695	882,545	950,497
	Memo Item:						
	Total NRI Deposits	136,939	143,267	161,834	179,788	174,623	183,019
	<i>Of which,</i>						
	1) NR(E) RA	92,977	93,159	98,443	106,786	106,824	109,888
	2) FCNR (B)	49,572	50,108	58,272	65,955	56,651	60,134
	3) NRO Deposits	negligible		5,119	7,047	11,148	12,997

Note: Figures in brackets indicate percentage to total external debt.
PR: Partially Revised; QE: Quick Estimates

VI. Fiscal Consolidation

At the beginning of reforms in 1991, the fiscal imbalances were identified as the root cause of the balance of payments crisis and domestic inflation. The fiscal consolidation, which followed in response, however, failed to sustain itself as there was no a statutory mandate or the required institutional support. Though the Fiscal Responsibility and Budget Management Act (FRBMA), was passed in 2003, the notification of the Rules (under the Act) in July 2004 provided the required mandate and lent credibility to the fiscal reforms process. The target for elimination of Revenue deficit of the Centre is 2008-09 and by 0.5 per cent of GDP every year, for limiting its Fiscal deficit to 3 per cent of GDP is 2008-09. The progress in this regard reveals that fiscal deficit of the centre as a proportion of GDP came down from 5.9 per cent in 2002-03 to 3.4 per cent in 2006-07 and to 2.8 per cent in 2007-08 (Provisional Actual). It is budgeted to decline to 2.5 per cent in 2008-09. 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. The additional commitments on account of the Debt Waiver and Debt Relief for farmers and implementation of Sixth Pay Commission are expected to be accommodated without violating the fiscal deficit target of 3 per cent by end of 2008-09. The position in respect of revenue deficit and fiscal deficit is given below.

Table 22: Key Fiscal Indicators

Year	Revenue deficit	Primary deficit	Fiscal deficit	Revenue deficit as per cent of fiscal deficit
(As per cent of GDP)				
2002-03	4.4	1.1	5.9	74.4
Enactment of FRBM				
2003-04	3.6	0.0	4.5	79.7
2004-05	2.5	-0.1	4.0	62.6
2005-06	2.6	0.4	4.1	63.0
2006-07	1.9	-0.2	3.4	56.3
2007-08(RE)	1.3	-0.6	3.0	44.2
2007-08(Prov.)*	1.2	-0.9	2.8	42.8
2008-09(BE)	1.0	-1.1	2.5	41.4
* Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance				
Note: The ratios to GDP at current market prices are based on CSO's new 1999-2000 series.				
Source: Budget documents				

Progress on the fiscal consolidation front has been satisfactory in the post-FRBM period. The gross tax-GDP ratio for the centre, which stagnated at 8-10 per cent range, increased to 11.4 per cent in 2006-07 to 12.5 per cent of GDP in 2007-08 (Provisional Actual). The 2008-09 budget estimates places this at 13.0 per cent in 2008-09 (BE).

In the first six months of 2008-09, gross tax receipts of the Centre increased by 25.3 per cent over corresponding year of the previous year. Revenue expenditure increased by 31 per cent in the first six months (April-September, 2008-09). The apparent decline in capital expenditure by 3 per cent during the period owes to the transaction relating to acquisition of equity of the State Bank of India during the previous year, which provides a higher base. The summary table for 2008-09 (April-September) on Central Government finances is enclosed.

The first batch of Supplementary Demands for Grants for 2008-2009 has been approved by the Parliament in October, 2008. This has gross additional expenditure of Rs. 2,37,285.84 crore. The net cash outgo aggregate to Rs. 1,05,613.38 crore and gross additional expenditure, matched by savings of the Ministries/Departments or by enhanced receipts/recoveries aggregate to Rs. 1,31,672.29 crore.

Table 23: Trends in Central Government Finances: April-September 2008

	Budget	April-September		Col.3 as	Col. 4 as	% Change over		
	Estimates 2008-09	2007-08	2008-09	% of 2007-08	% of 2008-09	proceeding year		
				BE	BE	2007-08	2008-09	
	(Rs. Crore)							(4/3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
1. Revenue Receipts	602935	197956	244898	40.70	40.6	22.64	23.7	
Gross tax revenue	687715	223491	280141	40.77	40.7	24.52	25.3	
Tax (net to Centre)	507150	160500	202247	39.74	39.9	23.47	26.0	
Non Tax	95785	37456	42651	45.37	44.5	19.21	13.9	
2. Capital Receipts	147949	119936	104183	61.79	70.4	32.47	-13.1	
of which:								
Recovery of loans	4497	2030	1486	135.33	33.0	-50.21	-26.8	
Other Receipts	10165	36706	43	88.13	0.4	-		
Borrowings and other liabilities	133287	81200	102654	53.79	77.0	-6.08	26.4	
3. Total Receipts (1+2)	750884	317892	349081	46.71	46.5	26.18	9.8	
4. Non-Plan Expenditure (a)+(b)	507498	231134	240629	48.62	47.4	26.26	4.1	
(a) Revenue Account	448352	187509	229484	48.89	51.2	8.43	22.4	
of which:								
Interest payments	190807	72820	86061	45.80	45.1	13.78	18.2	
Major Subsidies	66537	34954	54916	68.55	82.5	21.11	57.1	
Pensions	25085	10685	12247	45.49	48.8	12.39	14.6	
(b) Capital Account	59146	43625	11145	47.48	18.8	330.27	-74.5	
5. Plan Expenditure (i)+(ii)	243386	86758	108452	42.30	44.6	25.96	25.0	
(i) Revenue Account	209767	71571	93727	41.05	44.7	23.92	31.0	
(ii) Capital Account	33619	15187	14725	49.40	43.8	36.55	-3.0	
6. Total Expenditure (4)+(5)=(a)+(b)	750884	317892	349081	46.71	46.5	26.18	9.8	
(a) Revenue Expenditure	658119	259080	323211	46.44	49.1	12.31	24.8	
(b) Capital Expenditure	92765	58812	25870	47.96	27.9	176.62	-56.0	
7. Revenue Deficit	55184	61124	78313	85.51	141.9	-11.77	28.1	
8. Fiscal Deficit	133287	81200	102654	53.79	77.0	-6.08	26.4	
9. Primary Deficit	-57520	8380	16593	-104.14	-28.8	-62.69	98.0	

State Governments have witnessed similar improvement in their fiscal health. For the first time in about two decades, the State Governments have a consolidated surplus in their revenue account in 2006-07. The ratio of gross fiscal deficit (GFD) of the States to GDP has also shown a declining trend, with the 2008-09 (BE) at 2.1 per cent. In the case of States, their own revenues, as a per cent of GDP, which was stagnating around 5.6 per cent is now

showing an increase. It was 6.2 percent in 2006-07 and 6.4 per cent in 2008-09 (BE). As a result, the combined Tax GDP ratio which was 14.8 per cent in 2003-04 is estimated to increase to 19.2 per cent in 2008-09(BE).

VII. Social Sector Development and Inclusive Growth

Faster economic growth has also begun to get translated into more inclusive growth, both in terms of employment generation and poverty reduction. The 61st Round of NSSO Survey estimated that 47 million additional work opportunities were created during 1999-2000 to 2004-05, at an annual average of 9.4 million as against an annual average of 4 million job opportunities during 1993-94 to 1999-2000. Employment growth accelerated to 2.6 per cent per annum during this period. The labour force, however, grew at 2.8 per cent per year, 0.2-percentage point faster than the work force, resulting in an increase in the unemployment rate to 8.3 per cent in 2004-05. These rates, based on the current daily status approach, are higher than those obtained by the usual status and weekly status approaches, indicating a high degree of intermittent unemployment. Unemployment rate measured in terms of number of persons as per the usual principal and subsidiary status basis was 2.5 per cent in 2004-05.

The proportion of persons below poverty line declined from around 36 per cent of the population in 1993-94 to 28 per cent in 2004-05 as per the uniform recall period. Based on the mixed recall period, the number of persons below poverty line declined to 22 per cent in 2004-05 from 26 per cent in 1999-2000. Further, the growth of average monthly per capita expenditure at constant prices between 1993-94 and 2004-05 (61st Round of NSSO) also indicate broadly similar growth across different rural and urban income classes, though it may have been less uniform for urban than for rural population.

In pursuance of the objective of inclusive growth, Government has been implementing eight flagship programmes supported by sizeable outlays. These include National Rural Employment Guarantee Scheme(NREGS), National Rural Health Mission(NRHM) and Sarva Shiksha Abhiyan(SSA), Mid-day Meal(MMS), Integrated Rural Development Services(ICDS), Jawaharlal Nehru National Urban Renewal Mission(JNNURM), Rajiv Gandhi Drinking Water Mission and the Total Sanitation Campaign. Together, these flagship programmes aim to improve the livelihood of people as well as provide them with easy access to basic facilities like education, health, clean drinking water and sanitation. Besides, Bharat Nirman, which is an important programme to improve the quality of life and mainstreaming of rural population has received high priority. Budgetary outlay for Bharat Nirman[including the North Eastern Region(NER) component] was increased from Rs. 24,603 crore in 2007-08 to Rs. 31,280 crore in 2008-09. Under NREGS, in 2007-08, 3.39 crore households were provided employment and 143.5 crore person days were generated in 330 districts. In 2008-2009 (upto Sept), 2.93 crore households have been provided employment and 109.30 crore person days have been generated. The Programme had high works participation of marginalized groups like SC/ST (57 percent),

women (43percent) in 2007-2008. In 2008-2009(upto Sept), the participation is SC/ST (54percent) and women (49 percent).

Under Pradhan Mantri Gram Sadak Yojana (PMGSY), upto August, 2008, construction of 1.77 lakh km has been completed and all weather connectivity has been provided to over 50,000 habitations. Work is in full swing in respect of 1.56 lakh km. In Rajasthan, 34,253 km. road length has been completed followed by 21,072 km. in Uttar Pradesh and 20,205 km. in Madhya Pradesh. Under Indira Awaas Yojana, for the current financial year 2008-09, an amount of Rs. 5645.77 crore has been allocated to the States/UTs with a target of construction of 21.27 lakh houses. Out of this, an amount of Rs. 3175.97 crore have been released as on 8th October, 2008. As per the information received from States, 6.10 lakh houses have been constructed so far (upto 8/10/2008), after utilizing Rs. 2698.58 crore out of total available funds of Rs. 5828.51 crore. Budgetary allocation for ICDS was enhanced from Rs. 5,293 crore in 2007-08 to Rs. 6,300 crore in 2008-09.

A comprehensive skill development programme with wide coverage throughout the country has been initiated by the Government. The programme not only aims to bridge the emerging skill gaps in the Indian Economy but seeks to also cater to the demand on account of worldwide skill shortages by enhancing the supply of skilled workers for various critical sectors. It is aimed to establish and operationalize skill development institutes in all major regions of the country. The Prime Minister's National Council on Skill Development and National Skill Development Board have been constituted for this purpose. The Prime Minister's National Council on Skill Development was constituted on 1st July 2008. The Council is at the apex of a three-tier structure and would be concerned with vision setting and laying down core strategies. The Council would be assisted by the National Skill Development Coordination Board chaired by the Deputy Chairman, Planning Commission which will coordinate action for skill development both in the public and the private sector. To promote private sector action for skill development, an institutional arrangement in the form of a non-profit corporation called the National Skill Development Corporation has been set up in the Ministry of Finance. The Chairperson of the National Skill Development Corporation, a non-profit corporation to be set up by the Ministry of Finance would also be a Member of the Council. The Company was registered on July 31, 2008 as a Section 25 Company.

The global dimension of the challenge of climate change, demands a global and cooperative effort on the basis of the principle of equity. India is committed to play its role as a responsible member of the international community and to make its own contribution in this area. Prime Minister on June 30th, 2008 released India's National Action Plan on Climate Change. The National Action Plan reflects the importance the Government attaches to mobilizing our national energies to meet the challenge of climate change. The National Action Plan focuses attention on 8 priority National Missions. These are:

1. Solar Energy
2. Enhanced Energy Efficiency
3. Sustainable Habitat
4. Conserving Water
5. Sustaining the Himalayan Ecosystem
6. A "Green India"
7. Sustainable agriculture
8. Strategic Knowledge Platform for Climate Change

The National Mission of Solar Energy occupies a pre-eminent place in the National Plan. The National Action Plan would evolve and change in the light of changing circumstances and therefore invited broader interaction with civil society as a means to further improve the various elements of the Plan.

VIII. Capital Markets

Policy initiatives and developments in the Secondary Market

- **Corporatization and Demutualization of Stock Exchanges:** Corporatization and Demutualization of Stock Exchanges was mandated through an amendment to the Securities law in 2004. Out of the 23 stock exchanges, 18 have since been corporatized and demutualised in 2007-08. One stock exchange, i.e. Hyderabad Stock Exchange, failed to demutualise by the due date and has therefore been de-recognized. Saurashtra Kutch Stock exchange, Mangalore Stock exchange and Magadh Stock exchange have been de-recognized for various irregularities/non compliances. As regards Coimbatore Stock Exchange which had sought voluntary withdrawal of recognition, the matter is sub-judice.
- **Securities Contracts (Regulation) Amendment Act, 2007:** The Securities Contracts Regulation Act, 1956 has been amended to include securitisation instruments under the definition of "securities" and provide for disclosure based regulation for issue of the securitized instruments and the procedure thereof. This has been done keeping in view that there is considerable potential in the securities market for the certificates or instruments under securitization transactions.
- **Foreign investment in stock exchanges:** Foreign Investment upto 49% has been allowed in infrastructure companies in the securities markets, viz. stock exchanges, depositories and clearing corporations, with separate Foreign Direct Investment (FDI) cap of 26% and Foreign Institutional Investment (FII) cap of 23%. Currently a person, along with persons acting in concert, can hold up to 5% of shares in a recognized stock exchange. In order to encourage competition in the exchange space, the SEBI Board has decided to enhance this limit from 5% to 15% in respect of six categories

of shareholders, namely, public financial institutions, stock exchanges, depositories, clearing corporations, banks and insurance companies.

- **PAN as the sole identification number** : PAN has been made the sole identification number for all transactions in securities market. It is an investor friendly measure as he does not have to maintain different identification numbers for different kinds of transactions/different segments in financial markets. Further, identification through PAN would help the authorities in enforcement action. In the Budget of 2008-09 it was proposed that the requirement of PAN be extended to all transactions in the financial market subject to suitable threshold exemption limits.
- **Equity Finance for the Small and Medium Enterprises (SMEs)**: SMEs in India have traditionally relied on debt financing from banks and non-bank financial institutions. In order to develop the equity market for SMEs, SEBI has decided to the creation of a separate exchange for the SMEs. It has decided that, to begin with there should be a single exchange for the SME sector for around 2-3 years to enable successful development of the market for SMEs. In recognition of the need for making finance available to needy small and medium enterprises, the SEBI Board in its meeting held on 6th October, 2008 decided to encourage promotion of dedicated exchanges and/or dedicated platforms of the exchanges for listing and trading of securities issued by SMEs. Multiple exchanges or platforms would provide the necessary competition in this space. SEBI will come out with a suitable framework for recognition and supervision of such exchanges/platforms. The enterprises with a post issue paid up capital of upto Rs. 25 crore would be listed on such exchanges / platforms and trading lot would be Rs. 1 lakh.
- **New derivative products** : Mini derivative contract on Index (Sensex and Nifty) having a minimum contract size of Rs. 1 lakh have been introduced. It has been found that globally overall market liquidity and participation generally increases with introduction of mini contracts. Since January 11, 2008 SEBI has also allowed trading on options contracts on indices and stocks with a longer life/tenure of upto five years. Since January 15, 2008 SEBI has permitted introduction of volatility index on futures and options contracts.
- **Short selling**: In pursuance to budget announcement, SEBI has issued a circular on 20th December, 2007 to permit short selling by institutional investors and securities lending and borrowing to support settlement of short sales. This has been implemented since March 2008.
- **Investor Protection and Education Fund (IPEF)**: SEBI has set up the Investor Protection & Education Fund (IPEF) with the purpose of investor education and related activities. SEBI has contributed a sum of Rs.10 crore toward the initial corpus of the IPEF from the SEBI General Fund. In addition following amounts will also be credited to the IPEF namely: (i) Grants and donations given to IPEF by the Central Government, State Governments or any institution approved by SEBI for the purpose

of the IPEF;(ii) Interest or other income received out of the investments made from the IPEF; and (iii) Such other amount that SEBI may specify in the interests of the investors.

- **Framework for delisting of securities:** The Securities Laws (Amendment) Act enacted in 2005 allowed delisting of securities necessitating the creation of a delisting Framework. In order to provide statutory backing to delisting framework, Rules and Regulations has already been finalised and will be notified soon. A simplified procedure for delisting for small companies is being put in place.
- **Rules for clearing corporation:** SCRA was amended in 2004 to provide for Clearing and Settlement by a Clearing Corporation (CC). It provides that an Exchange may, with the approval of SEBI, transfer the duties and functions of a clearing house to a recognized CC for the purpose of the periodical settlement of contracts and differences there under, and the delivery of, and payment for securities. The rules for the purpose are being finalised by the Government in consultation with SEBI.
- **Amendment to Section 20 of the Indian Trusts Act, 1882:** Amendment to Section 20 of the Indian Trusts Act, 1882 (2 of 1882) which relates to investment of Trust money has been approved by the Cabinet on 8th October, 2008. This amendment would, by inserting a provision of empowering government to notify a class of securities, do away with the requirement of case to case approval of 'any security' and will give trustees greater autonomy and flexibility to take investment decisions based on their assessment of the risk return tradeoff and the relevant provisions of the trust deed. It would be consistent with the current economic environment and the shift from a merit based regulatory regime to a disclosure based regulatory regime. Further, this proposed amendment is in line with and in compliance of Law Commission's recommendations.

IX. Infrastructure Funding

Special features of infrastructure projects

In general, infrastructure projects are characterised by the following features:

- (i) Large Capital requirement
- (ii) High sunk cost. A large proportion of the cost has to be irrevocably committed upfront before the project becomes operative
- (iii) Long gestation periods
- (iv) Returns are slow to pass in
- (v) Availability of foreign funds is poor
- (vi) Sector is sensitive to political environment and policy changes
- (vii) The services produced are non tradable. The excess services generated cannot be stored

or exported and deficiency in service cannot be met with by imports except for certain exceptions

Normal source for financing of private infrastructure projects are debt and equity. Govt. of India has allowed debt-equity ratio in such cases as 7:3 but financier always like to have bigger equity participation and it may go up to 2:1 or even 1:1. As these projects are of unknown risk, financier always likes to have higher equity participation. One specialty of infrastructure project is that it has a monopolistic market and hence much more assured future revenue stream. Thus risk of equity is of much lower scale than that would be needed in case of industrial projects which are open to market fluctuations.

Sources of Debt

- (i) All India financial institution (AIFIS). They are the long term lending institution in India . They are IDBI, ICICI, IL&FS, IDFC etc,
- (ii) India Infrastructure Finance Company Limited(IIFCL).
- (iii) Scheduled Commercial banks – They are traditional sources of working capital funding for Indian projects but now Government is encouraging them to lend long term funds for infrastructure projects either singly or as consortium. However, appraisal for the project has to be done by special agencies as they do not possess such capabilities.
- (iv) Dedicated road fund: A dedicated central road fund has been created under the control road fund Oct 2000 by levying a cess of petrol and diesel.
- (v) Corporate Bond Market

Constaints to Debt Finance:

Although the All India financial institutions and IIFCL cater to long term fund requirements for infrastructure the demand for funds is too large to be satisfied by these institutes alone. Commercial Banks suffer from asset liability mismatch even if they contribute to a sizeable chunk of infrastructure finance. The absence of a matured corporate bond market further aggravates the problem. The issues involved in the Indian corporate bond markets are as follow:

- Small Corporate Bond Market-accounts for less than 1% of GDP
- Trading volume insignificant
- Issuance takes place on a private placement basis
- Cumbersome primary issuance guidelines for corporate issuers
- High costs of listing, rating, trusteeship, R&T agent, arranger fees, stamp duty, intermediation costs to brokers and underwriters
- Lengthy process-minimum timeframe for clearance of offer documents by the regulator is 21 days.
- Inefficient clearing and settlement mechanisms, poor and lengthy enforcement laws relating to default proceedings-leading to illiquid market.
- Shelf Registration is available only to specially designated Public Financial Institutions and not to all corporate issuers.

- Lower Coupon Rate than sovereign instruments such as PPF/NSC-Individual investors have no interest.
- RBI, SEBI and MoF have regulatory and supervisory roles that are not sufficiently delineated.
- Absence of long term investors
- Lack of innovative instruments i.e. third party credit enhancement and hedging tools for investors and traders to mitigate credit risk and interest rate risk.
- Restriction on banks' investment in unlisted/ unrated non-SLR securities
- Restriction on Superannuation Funds, insurance funds, provident funds to invest in bonds
- High stamp duty differentiated across various States
- Absence of Repo transactions on corporate bonds
- Restrictive IRDA guidelines-allow investment in assets/instruments under the approved category with the credit rating of AA.

Sources of Equity

Equity requirements for the project can be met from "Infrastructure funds" specially created by Govt. or other agencies. Venture capitalists do not like to have equity participation in case of such projects. Many countries have created such "Infrastructure fund" and are useful for providing equity finances. Banks are normally not very keen to finance such projects in the form of equity because these need long term financing and they are constrained by the time profile of their deposits. Institutional financiers such as insurance companies, provident fund, gratuity fund and superannuation fund can be source of such financing if allowed so as to ensure that cash flow is comfortable in each financial year.

Equity Finance-Indian Scenario

Equity finance in India is characterised by predominance of sponsor's Equity. However, sponsor's ability to raise equity from the primary market is limited since:

- There is no track record of performance at the development stage
- Project sponsors have high gearing typically
- Projects are operationally complex in terms of contracts, legal structures and right of first change on assets
- Infrastructure SPVs are not normally listed on the Stock Exchanges

Constraints to Equity Participation

- Lack of exit options
- Conflict of interest between project developers and financial investors
- Investment by Provident Funds in equities is not allowed.
- Insurance companies can invest in equities of the companies which have a specified dividend payment record for at least seven out of last nine years

- SEBI registered venture funds/ private equity funds cannot become bidding partners as they cannot meet the qualification criteria such as gross revenue, net worth or net cash accruals.

Steps taken by government to ease financing constraints

- Viability Gap Funding (VGF)
- India Infrastructure Finance Company Limited (IIFCL)
- India Infrastructure Initiative (\$ 5 bn. Fund)
- Enhanced Annual External Commercial Borrowing ceiling
- Bonds- reporting platform started and trading platform slated to start from July 1, 2007
- Permission to foreign financial institutions and multilaterals to raise rupee resources: ADB allowed to raise rupee resources
- Encouraging development of new instruments such as grading of PPP projects/SPV rating by the major credit rating companies
- Utilization of a part of the Forex Reserves: It has been decided that one wholly owned subsidiary of IIFCL would be set up in London for borrowing of funds from the RBI and lending to Indian companies implementing infrastructure projects in India. RBI would provide funds to this subsidiary in the form of 10 year maturity US dollar denominated bonds with a face value of USD one million, with the maximum aggregate issuance of USD 5 Billion. The bonds will be fully guaranteed by the Government of India for both principal and interest. The off-shore subsidiary of IIFCL was registered in London on February 7, 2008.

Recent Problems in Infrastructure Financing

Recently, banks have been very slow in disbursing funds. With respect to infrastructure projects, the Conditions Precedent to disbursements stipulated by banks is quite stringent. Despite completing all CPs, some of the banks are not disbursing funds, citing liquidity and market conditions. In case of new projects, banks are hesitant in taking up fresh exposures because of the following:

- Increase in cost of funds and consequent charging of higher rate of interest for infrastructure projects, say over 15%. At this interest rate, the infrastructure projects may not be viable. (The pricing for a reasonably well structured infrastructure project has moved up by approximately 300 bps in the current year. This is creating severe strain on the project costs and the projected cash flows.)
- RBI prescribed group exposure ceilings
- Asset-liability mismatches

Banks have also been renegeing on the sanctioned terms, especially relating to interest rates agreed in the Loan Documentation. These include even loan documents executed in the

current fiscal. Even if a couple of banks block disbursement, the entire disbursement schedule gets seriously disturbed.

Banks are now stipulating variable interest rate formats, even during the construction period. This exposes the project to severe interest rate risk during construction and a consequent risk of shortfall in project financing. Banks are also now stipulating “credit rate spread” re-fixation after 2/3 years. This exposes projects to a lender driven unilateral interest rate risk. Several banks are already showing a significant dislike to process projects with tenor of above 10-12 years.

The significant weakening of the Indian Rupee and the volatility in the Foreign Exchange markets have also caused a level of distress for financing infrastructure projects. Projects with import component have seen a significant rise in project costs, causing pressure on promoters and lenders to re-evaluate the project viability and financing. On account of the high volatility in the Foreign Exchange markets, banks have been asking for additional security for undertaking Forex Cover on exposed component of financing. This adds more strain in the project financing, since the entire security in the form of tangible assets and cashflows are charged to the funded lenders on a pari-passu basis.

Recently some of the banks have displayed a credit aversion to the sector, driven by sectoral exposure, cost escalation and lower than budgeted revenue flows. A significant portion of the input costs like bitumen, cement etc has also been driven by higher prices. Similarly, several banks are now communicating an aversion to take large exposure in the power sector.

Infrastructure projects that have predicated part of their equity funding from the capital markets (either through IPO or Private equity deals) are facing a level of uncertainty. Where part disbursements from banks have already commenced for several projects, further disbursements are now delayed by the banks, subject to promoters demonstrating complete tie up.

X. Externally funded projects

International Fund for Agricultural Development (IFAD)

International Fund for Agricultural Development (IFAD) was set up in 1977 as the 13th specialized agency of the United Nations. 165 countries are members of the IFAD and these are grouped into three lists. List – A comprises Developed Countries, List – B: Oil Producing Countries and List – C: Developing Countries. Within List – C, sub list C-I comprises Africa, C-II: Europe, Asia and the Pacific and C-III: Latin America and the Caribbean. IFAD is headed by an elected President and has Governing Council and an Executive Board. India has been re-elected to the Executive Board of IFAD for the period 2006 – 08. Since inception, India has contributed US\$ 73 million towards the resources of IFAD.

Upto 31.10.2008, IFAD has assisted in 22 projects in the agriculture, rural development, tribal development, women's empowerment, natural resources' management and rural finance sector with the commitment of US\$ 595.3 million. Out of these, 14 projects have already been closed. Presently, seven projects with a total assistance of US\$ 205.21 million are under implementation and one project viz. 'PRIYADARSHINI – Women's Empowerment and Livelihoods Programme in the Mid Gangetic Plains in UP & Bihar' for US\$ 30.2 million has been approved but programme documents are yet to be signed.

IFAD loans are repayable over a period of 40 years including a grace period of ten years and carry no interest charges. However, a service charge at the rate of three-fourths of one per cent (0.75%) per annum is levied on loan amounts withdrawn and outstanding.

United Nations Development Programme in India

Background

1. The United Nations Development Programme (UNDP) is the largest channel for development cooperation in the UN System. It has been India's partner in development since 1951. The overall mission of the UNDP is to assist the programme countries through capacity development in Sustainable Human Development (SHD) with priority on poverty alleviation, gender equity, women empowerment and environmental protection. The UNDP sees SHD as an integrated, multi-disciplinary, holistic process for development, which is people-centred, participatory, and environmentally sound. SHD stresses economic growth with equitable distribution, enhancement of people's capabilities and enlargement of their choices.

2. The UNDP has field offices worldwide. The India Office, located in New Delhi, is headed by a Resident Representative (currently Dr. Maxine Olson) who also acts as the Resident Coordinator for the UN System in India.

3. A new post of Country Director, responsible for the day-to-day management of the programmes was established in 2006 in countries with major UNDP programmes. Ms. Deirdre Boyd currently holds the post of Country Director in India.

Funding

4. The UNDP derives its funds from voluntary contributions from various donor countries. These contributions are made separately to the UNDP 'Core' and to 'Non-core' funds. Core resources are 'non-earmarked' allocations from the UNDP headquarters that are available for a country programme and form the bedrock of the UNDP's neutrality, impartiality, and truly multilateral character. Non-core funds are mobilized by the UNDP Country Office for specific programmes/activities from donors. Non-core resources are 'earmarked' funds given by the donors for specific themes and regions. All assistance provided by the UNDP is grant assistance.

India's annual contribution to the UNDP has been to the extent of US\$ 4.5 million, which is one of the largest from developing countries. Over and above its annual contribution, the GOI also pays for the expenditure of the Local Office. Given that total external aid contributes only modestly to India's annual plan outlay, the primary benefits that accrue from the UNDP's activities are not in the quantum of monetary contribution but through intangibles such as:

- Capacity enhancement of development agencies in India through the introduction of international best practices;
- Rigour and discipline of programme implementation; and
- Pilot programmes in greenfield activities that can be later replicated through other assistance.

Country Cooperation Framework (CCF)

5. The country-specific allocation of UNDP resources is made every five years under the Country Cooperation Framework (CCF) which usually synchronizes with India's five-year plans. The resource allocation criteria takes into account factors such as population and per capita Gross National Product (GNP).

6. The last CCF (CCF-II) synchronized with 10th Five-year Plan (2003-07) and focused on thematic areas (i) promoting human development and gender equality, (ii) capacity-building for decentralization, (iii) poverty eradication and sustainable livelihoods and (iv) vulnerability reduction and environment sustainability. The total resource base of CCF-II was US\$ 190 million, of which core resources were US\$ 93 million. A list of ongoing projects is at [Annex.III](#).

New Country Programme

The new Country Programme Document (CPD): 2008-12, since adopted in the UNDP Executive Board Meeting held in New York in September, 2007, is based on the United Nations Development Assistance Framework (UNDAF) goal on 'promoting social, economic and political inclusion for the most disadvantaged, especially women and girls'. The document has been formulated by the GOI in partnership with the UNDP Country Office and is in harmony with the 11th Plan's thrust on inclusive growth. The document is effective from 1 January 2008 and will remain in force till 31 December 2012.

7. The new country programme will primarily concentrate on the UNDAF goals, namely, democratic governance, poverty reduction, HIV and development, disaster risk management and energy and environment. Further, it will focus on seven states that are economically laggard: Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh.

8. The total resource requirement for the new country programme is estimated at US\$ 200-250 million, out of which one-third would be Core, one-third Non-core, and one-third mobilized from UN Trust Funds, etc.

9. As per UNDP new programme guidelines, the Country Programme document formulation is the first step in the country programme formulation process, followed by the Country Programme Action Plan (CPAP) and the elaboration of an Annual Work Plan (AWP). The CPAP and AWP are delineated from the agreed CP document.

10. CPAP, which basically specifies the management arrangements for the implementation of the programme, is a legal agreement between the host government and UNDP to execute the Country Programme; and AWP, which are also part of the CPAP, are legal agreements between UNDP and the Implementing Partners (Line Ministries/State Governments, NGOs/CSOs) to implement a specific project within a calendar year as identified in the CPAP.

11. CPAP (2008-12), which was signed with UNDP on 27.2.2008, will remain in force till 31 December 2012.

Annexe I

Pipeline Projects - World Bank

S. No	Name of the project	Posed to World Bank	Amount of World Bank assistance sought	Status
1	Dam rehabilitation and Improvement Project	07.05.2003	Rs.718.99 crores	MOWR is undertaking project preparation activities.
2	National Cyclone Risk Mitigation Project	23.07.2004	Rs.1050 Crores	WB sanctioned PPF advance of US\$ 800,000 for project preparation in March 2005. The project is currently being prepared.
3	A P Water Sector Improvement Project	18.04.2006	Rs.2250 crores	WB preparation mission visited AP during January 28-February 12, 2008.
4	West Bengal Accelerated Development of Minor Irrigation Project	17.01.2007	Rs.1143 crores	Preparation Mission of WB visited West Bengal during Nov. 19-22, 2007. The project is tentatively scheduled for delivery in FY 09 of the World Bank, by January 2009. WB has sanctioned project preparation advance of US\$ 2,940,000 on April 29, 2008.
5	Orissa Water Sector Improvement Project	16.05.2007	Rs.3493.1 crores	WB first preparation mission visited the state during September 21-26, 2008. The proposed project is included in their lending pipeline with target delivery during FY10.
6	India Statistical Strengthening Project	14.6.2007	US \$ 120 million	Pre-appraisal
7	India Infrastructure Finance Company Ltd (IIFCL) proposal for IBRD line of credit	17.5.2006	US \$ 600 million	Negotiated
8	Renovation & Modernization of power plant in India	16.3.2006	IBRD- US \$ 100 million, GEF- US \$ 36 million, Total - US \$ 136 million	preparation
9	Luhri HEP (700 MW)	31.7.2006	US \$ 640 million	preparation
10	Vishnugad Pipalkothi	31.7.2006	US \$ 350 million	preparation
11	Uttar Pradesh SAL-II	20.7.2007	Amount of assistance (IBRD+IDA) is to be decided by the World Bank in consultation with Deptt. of Expenditure and Govt. of UP	Pre-appraisal
12	National Innovation Project	18.7.2007	IBRD – US \$ 165 million	Pre-appraisal
13	Haryana Power Project	14.11.2007	IBRD – US \$ 1082 million	appraisal
14	PSDP - V	-	IBRD – US\$ 400 million	negotiated
15	SME-II	1.8.2008	IBRD US \$ 200 million	preparation

S. No	Name of the project	Posed to World Bank	Amount of World Bank assistance sought	Status
16	Rural Finance Access through Microfinance	1.8.2008	IBRD US \$ 100 million + IDA US \$ 50 million	appraisal
17	West Bengal Health System Development Project	23.05.2003	US \$ 172 million	Preparation
18	Swayamsidha Project Phase II	28.06.2005	Rs.562.5 crores	Not available
19	Early Childhood Development Project (ICDS-IV)	12.12.2006	US \$ 450 million	Appraisal
20	Improvement of 4286 Kms of high density core network roads in A P	25.02.2005	US \$ 320 million	To be appraised by Nov-Dec 08
21	National E Governance Plan	June 2004	US \$ 300 million	Preparation
22	AP Urban Reform and Municipal Sanitation	15.11.2000	US \$ 233 million	Re appraisal
23	Capacity Building under JNNURM concerning MoUD	14.08.2007	US \$ 40 million	Preparation
24	Capacity Building under JNNURM concerning MoUD	29.08.2007	US \$ 20 million	Preparation
25	UP – Diversified Agricultural Support Project – II	12.8.2004	US \$ 149 million	Appraisal of the project by World Bank dependent on amendment of APMC Act.
26	Participatory Watershed Management Project in Jammu & Kashmir	14.6.2005	US \$ 151.1 million	The World Bank has completed the appraisal of the project.
27	Rural Roads Project – II	29.9.2006	US \$ 500 million	The World Bank has completed the appraisal of the project.
28	Orissa Rural Livelihoods Project – TRIPTI	8.6.2007	US \$ 82.4	Negotiations held during June 17 - 19, 2008.
29	North Eastern Region Livelihoods Project	29.9.2005	515 (Final assistance amount will be fixed in consultation with DEA)	Project Preparation Facility (PPF) of US\$ 1,215,000 for preparing the project proposal has been approved.
30	Strengthening Local Governments in Kerala	13.12.2006	US\$ 120 million	WB has agreed to include the proposed project in their lending pipeline list. World Bank's Preparation Mission has visited the State during January, 2008.
31	Bihar Panchayats Strengthening Project	1.8.2007	US\$ 120 million	WB's First Preparation Mission visited the State during April 29 to May 3, 2008.
32	Improved Service Delivery by Panchayats in West Bengal	17.8.2007	US\$ 120 million	WB's Identification Mission visited the State during May 19 - 23, 2008.
33	MP District Poverty Initiatives Project – II	5.9.2007	US\$ 100 million	WB's Preparation Mission will visit the state during June 17 - 27, 2008.
34	UP Sodic Lands Reclamation Project - III	12.2.2008	Rs. 1369.6 crores	WB has agreed to include the proposed project in their lending pipeline list.
35	Biodiversity conservation & Socio-economic development of the Sundarban Area of WB	22.5.2008	Rs. 922.92 crores	Posed to the World Bank on 22.5.2008.
36	Upgradation and maintenance of rural roads	15.7.2008	Rs. 726.75 crores	Posed to the World Bank on 15.7.2008.

S. No	Name of the project	Posed to World Bank	Amount of World Bank assistance sought	Status
	in 5 districts of AP			
37	Rajasthan District Poverty Initiatives Project – II	25.7.2008	Rs. 600 crores	Posed to the World Bank on 25.7.2008.
38	Tamil Nadu Rural Water Supply & Sanitation Project	30.01.2002	US\$ 150 million	The project is at appraisal stage.
39	Andhra Pradesh Rural Water Supply & Sanitation project	05.04.2007	Rs. 950 Crores	The project is currently under preparation

Pipeline Projects - IFAD

S. No.	Name of the project	Posed to IFAD	Amount of IFAD assistance sought	Status
1	Women Empowerment in UP and Bihar	10.3.2006	US \$ 30 M (approx.)	Negotiations held during November 23-25, 2006 at Rome, Italy. The Executive Board of the IFAD in its meeting held in Dec. 2006 approved the project. M/o Women & Child Development has requested to change the Implementing Agency from State Women's Development Corporations to NABARD. IFAD has been requested on 3.7.2008 to make necessary changes in the project documents. M/o W&CD have to convey their approval of EFC.

Annexe II

World Bank assisted Ongoing Projects

S. NO.	PROJECT NAME	APPROVAL DATE	CLOSING DATE	IBRD AMT	IDA AMT	TOTAL AMT
1	Orissa Community Tank Management Project	30-Sep-08	31-Aug-14	56	56	112
2	India Orissa State Roads Project	30-Sep-08	31-Dec-14	250	0	250
3	Orissa Rural Livelihoods Project	31-Jul-08	31-Dec-13	0	82.35	82.35
4	National Vector Borne Disease Control & Polio Eradication Support Project	31-Jul-08	31-Dec-13	0	521	521
5	Elementary Education (SSA II)	15-May-08	31-Mar-10	0	600	600
6	POWER SYSTEM DEVELOPMENT PROJECT IV	18-Mar-08	31-Jul-13	600	0	600
7	Bihar DPL	20-Dec-07	31-Dec-08	150	75	225
8	Karnataka Community Based Tank Management Project (Supplement)	25-Sep-07	N/A	32	32	64
9	Himachal Pradesh Development Policy Loan 1	25-Sep-07	31-Mar-09	135	65	200
10	Rampur Hydropower Project	13-Sep-07	31-Mar-13	400	0	400
11	AP Rural Poverty Reduction Additional Financing	10-Jul-07	N/A	0	65	65
12	Strengthening India's Rural Credit Cooperatives	26-Jun-07	30-Jun-12	300	300	600
13	Bihar Rural Livelihoods Project - "JEEViKA"	14-Jun-07	31-Oct-12	0	63	63
14	Himachal Pradesh State Roads Project	05-Jun-07	30-Jun-13	220	0	220
15	India Vocational Training Improvement Project	05-Jun-07	31-Dec-12	0	280	280
16	Mizoram Roads - Additional Financing	22-May-07	N/A	0	18	18
17	Third National HIV/AIDS Control Project	26-Apr-07	30-Sep-12	0	250	250
18	Andhra Pradesh Community-Based Tank Management Project	19-Apr-07	31-Dec-12	94.5	94.5	189
19	Tamil Nadu Irrigated Agriculture Modernization and Water-Bodies Restoration and Management Project	23-Jan-07	31-Mar-13	335	150	485
20	Third Andhra Pradesh Economic Reform Loan/Credit	11-Jan-07	31-Dec-08	150	75	225
21	Punjab Rural Water Supply and Sanitation	14-Dec-06	31-Mar-12	0	154	154
22	Punjab State Roads Project	05-Dec-06	05-Jun-12	250	0	250
23	Uttaranchal Rural Water Supply and Sanitation Project	05-Sep-06	30-Jun-12	0	120	120
24	Karnataka Health Systems	22-Aug-06	31-Mar-12	0	141.83	141.83
25	Reproductive & Child Health Second Phase	22-Aug-06	30-Sep-10	0	360	360
26	Second National Tuberculosis Control Project	22-Aug-06	31-Mar-12	0	170	170
27	Orissa Socio-Economic Development Loan II	01-Aug-06	30-Jun-08	150	75	225
28	Karnataka Panchayats Strengthening Project	29-Jun-06	31-Mar-12	0	120	120
29	FALG Brick Project	28-Jun-06	31-Dec-17	0	0	0
30	National Agricultural Innovation Project	18-Apr-06	31-Dec-12	0	200	200
31	Karnataka Municipal Reform Project	14-Mar-06	30-Apr-12	216	0	216
32	POWER SYSTEM DEVELOPMENT PROJECT -III	19-Jan-06	31-Jul-11	400	0	400
33	Himachal Pradesh Mid-Himalayan Watershed Development Project	13-Dec-05	31-Mar-13	0	60	60

34	Tamil Nadu Empowerment and Poverty Reduction	12-Jul-05	30-Sep-11	0	120	120
35	Third Tamil Nadu Urban Development Project (TNUDP III)	05-Jul-05	30-Mar-11	300	0	300
36	Maharashtra Water Sector Improvement Project	23-Jun-05	31-Mar-12	325	0	325
37	India: Emergency Tsunami Reconstruction Project	03-May-05	30-Oct-08	0	465	465
38	Lucknow-Muzaffarpur National Highway Project	21-Dec-04	30-Jun-10	620	0	620
39	Tamil Nadu Health Systems Project	16-Dec-04	30-Sep-10	0	110.83	110.83
40	Assam Agricultural Competitiveness Project	14-Dec-04	31-Mar-10	0	154	154
41	Rural Roads Project	23-Sep-04	31-Mar-10	99.5	300	399.5
42	Madhya Pradesh Water Sector Restructuring Project	07-Sep-04	31-Mar-11	394.02	0	394.02
43	Hydrology Project Phase II	24-Aug-04	30-Jun-12	104.98	0	104.98
44	Integrated Disease Surveillance Project	08-Jul-04	31-Mar-10	0	68	68
45	Uttaranchal Decentralized Watershed Development Project	20-May-04	31-Mar-12	0	69.62	69.62
46	Karnataka Urban Water Sector Improvement Project	08-Apr-04	31-Dec-08	39.5	0	39.5
47	RAJASTHAN HEALTH SYSTEMS DEVELOPMENT PROJECT	11-Mar-04	30-Sep-09	0	89	89
48	Allahabad Bypass Project	14-Oct-03	30-Jun-09	240	0	240
49	Maharashtra Rural Water Supply and Sanitation "Jalswarajya" Project	26-Aug-03	30-Sep-09	0	181	181
50	Tamil Nadu Road Sector Project	17-Jun-03	31-Mar-09	348	0	348
51	Chhattisgarh District Rural Poverty Reduction Project	24-Apr-03	31-Mar-09	0	112.56	112.56
52	Andhra Pradesh Rural Poverty Reduction Project	20-Feb-03	30-Sep-09	0	150.03	150.03
53	Uttar Pradesh State Roads Project	19-Dec-02	31-Dec-08	488	0	488
54	Technical/Engineering Education Quality Improvement Project	14-Nov-02	31-Mar-09	0	250	250
55	ANDHRA PRADESH COMMUNITY FOREST MANAGEMENT PROJECT	16-Jul-02	31-Mar-09	0	108	108
56	Mumbai Urban Transport Project	18-Jun-02	31-Dec-09	463	79	542
57	Gujarat Emergency Earthquake Reconstruction Project	02-May-02	31-Oct-08	0	442.8	442.8
58	Karnataka Community-Based Tank Management Project	25-Apr-02	31-Jan-12	0	98.9	98.9
59	Mizoram State Roads Project	14-Mar-02	30-Jun-09	0	60	60
60	Kerala State Transport Project	14-Mar-02	28-Feb-09	255	0	255
61	Rajasthan Water Sector Restructuring Project	19-Feb-02	31-Mar-09	0	140	140
62	Uttar Pradesh Water Sector Restructuring Project	19-Feb-02	31-Oct-08	0	149.2	149.2
63	Second Karnataka Rural Water Supply and Sanitation Project	18-Dec-01	31-Dec-08	0	151.6	151.6
64	Karnataka watershed development project	21-Jun-01	31-Mar-09	0	100.4	100.4

IFAD projects

1	JHARKHAND-CHATTISGARH TRIBAL DEVELOPMENT PROGRAMME	JHARKHAND & CHHATTISGARH	IFAD	506-IN	13.3.2001	21.6.2001	31.12.2009	41.7	22.8	8.97
2	NATIONAL MICRO-FINANCE SUPPORT PROGRAMME	NON-GOVT. LOAN (SIDBI)	IFAD	538	18.2.2002	1.4.2002	30.6.2009	134	22	21.26
3	ORISSA TRIBAL EMPOWERMENT AND LIVELIHOOD PROGRAMME	ORISSA	IFAD	585-IN	18.12.2002	15.7.2003	31.3.2013	91	20	3.870
4	LIVELIHOOD IMPROVEMENT PROJECT FOR THE HIMALAYAS	UTTARAKHAND & MEGHALAYA	IFAD	624-IN	20.2.2004	1.10.2004	31.12.2012	84.04	39.91	10.333
5	POST-TSUNAMI LIVELIHOODS PROGRAMME FOR THE COASTAL AREAS OF TAMIL NADU	TAMIL NADU	IFAD	662-IN	11.11.2005	9.7.2007	31.3.2016	68.6	30	1.00
6	TEJASWINI - RURAL WOMEN EMPOWERMENT PROGRAMME	MAHARASHTRA & MADHYA PRADESH	IFAD	682-IN	12.10.2006	23.7.2007	31.3.2016	208.69	39.44	3.00
7	MITIGATING POVERTY IN WESTERN RAJASTHAN	RAJASTHAN	IFAD	748-IN	17.10.2008	To be effective	NA	62.3	30.3	0.00
* After cancellation and reallocation of US\$ 20 million from each Project to Emergency Tsunami Reconstruction Project.										
# Figures are from O/o CAA&A										
** Including Additional Financing of US\$ 65 million.										

Annex.III**LIST OF ONGOING UNDP ASSISTED PROJECTS****(in US\$ million)**

Sl. No.	Project Name	Amount of Grant	Date of signing	Date of closure
1.	Disaster Risk Management Programme	34.00	27.08.2002	31.12.2008
2.	Endogenous Tourism	3.94	15.07.2003	31.12.2008
3.	National Programme on Promoting Conservation of Medicinal Plants & Traditional Knowledge for Enhancing Health & Livelihood Security	3.00	22.09.2003	31.03.2010
4.	Information & Communication Technology (ICT) for Development	5.00	23.10.2003	31.12.2008
5.	National Strategy for Urban Poor	5.00	04.11.2003	31.12.2009
6.	Rural Decentralisation & Participating Planning for Poverty Reduction	4.60	05.04.2004	31.12.2008
7.	Strengthening States Plan for Human Development	10.96	15.06.2004	31.12.2009
8.	Promoting Gender Equality	1.00	12.07.2004	31.12.2008
9.	Vulnerability Reduction through Community Empowerment and control of Water in the Marwar Region	4.43	23.03.2005	31.12.2009
10.	Capacity Building for Access to Information	3.00	08.04.2005	31.12.2009
11.	Development of Coordination and Decision Support System (CDSS)	1.64	20.09.2005	31.03.2010
12.	Biodiversity Conservation through Community based Natural Resource Management	3.00	12.01.2007	31.03.2010
13.	Support to the national Efforts for Mainstreaming of HIV/AIDS	15.45	30.05.2007	31.03.2012
14.	Sustainable Industirlisation – Building Stakeholder Capacity and Involvement	0.75	20.11.2007	31.12.2012
15.	Strengthening of the GEF Cell in the MoEF and scaling-up of the UNDP/GEF Small Grants Programme	0.90	24.01.2008	31.12.2009
16.	Support to Operationalisation of National Rural Employment Guarantee Act (Phase-II)	5.00	31.3.2008	31.05.2012
	Total	101.67		

XI. Global Financial crisis and impact on India

The global financial crisis which surfaced in August 2007 had its origin in the meltdown of the US housing market and consequent sub-prime mortgage loan delinquencies and rising home foreclosures. This in turn led to a steep fall in the prices of mortgage-backed securities, whose value is derived from mortgage payments. The financial institutions – investment banks, structured investment vehicles, hedge funds, etc. - with too little capital were unable to deal with the resultant losses and write-downs. Further, as these institutions did not have recourse to central bank facilities, they were also unable to cope with the liquidity crunch that followed, thereby amplifying the crisis.

Indian banks have very limited exposure to the US mortgage market, directly or through derivatives, and to the failed and stressed international financial institutions. The crisis in the international financial markets could impact the Indian equity and foreign exchange markets directly. The money, debt and credit markets could also be affected, albeit indirectly, raising costs of funds. The macroeconomic impact of the global financial turmoil has been muted due to the overall strength of domestic demand and the predominantly domestic nature of financing of investment. The fundamentals of the Indian economy have been strong and continue to be strong.

The surge in global commodity prices, particularly oil since 2004, put further stress on the macroeconomic framework of many emerging market economies and developing countries, including the Indian economy. There has been some respite in the global inflation front recently and commodity prices are stabilizing. But, the recent appreciating trend in the US dollar emanating from risk aversion in mature markets following the financial crisis is appropriating a large part of the gain of emerging market economies in terms of lower global prices.

The Government has been closely monitoring these developments in international financial markets and reviewing the emerging domestic financial market situation. The RBI has announced a package of measures aimed at improving domestic and foreign currency liquidity in September and October 2008 as under:

- Repo rate was reduced by 150 basis points to make it 7.50 per cent (November 3, 2008). It narrowed the policy corridor to 150 basis points.
- RBI announced that it will continue to supply dollars to meet demand-supply gaps directly or through agent banks; modulated interest rates on non-resident deposits to attract capital flows. The RBI reduced the Cash Reserve Ratio from a level of 9.0 per cent as of October 10, 2008 to 5.50 per cent (November 8, 2008), by 350 basis points to inject additional liquidity.
- On October 14, 2008 the RBI also conducted a special 15 –day repo at 9 per cent per annum for a notified amount of Rs.20,000 crore under LAF to meet the liquidity requirements of mutual funds. On October 15, 2008, at the request of the

Government, the RBI has announced that it would provide Rs.25,000 crore as first installment immediately as liquidity support to concerned financial institutions under the Agriculture Debt Waiver and Debt Relief Scheme.

- On October 15, 2008, the RBI announced that banks were allowed to borrow funds from their overseas branches and correspondent banks up to a limit of 50 per cent of their unimpaired Tier I capital as at the close of the previous quarter or US \$ 10 million whichever is higher as against the existing limit of 25 per cent.
- Earlier, to obviate the difficulties arising out of a tightening in the money and foreign exchange markets, the public sector oil marketing companies were facilitated through special market operations for oil bonds in June –July 2008. Besides the above measures taken by the RBI, the SEBI has relaxed the restrictions on offshore derivative instruments and decided to increase the Foreign Institutional Investors (FIIs) investment limit in corporate bonds from \$3 billion to US\$ 6 billion.

Assessment of impact of recent developments on various sectors: While it is difficult to quantify the impact of developments abroad and at home on GDP growth, it is possible to indicate factors that may result in some moderation in growth. But, on the whole, GDP growth should still look fairly robust.

On positive note, there has been a meltdown in global commodity prices led by a decline in crude prices. Decline in crude prices have moderated the prices of products which use crude/products as inputs (fertilizers, chemicals, manmade fibres), energy substitutes (coal and gas), energy intensive products (metals), products used as bio fuels (edible oils, oilseeds, sugar) and primary commodities which have competing synthetic products (natural rubber, cotton). The positive impact may get reflected through a moderation in inflation, improving the corporate profitability through input cost reductions and increasing their internal accruals.

Outlook: The rapid growth of the Indian economy in recent years has brought into sharp focus the urgent need to develop the physical and social infrastructure. There are clear signals that a rapid increase in the scale and quality of investment in physical infrastructure such as power, railways, roads, airports, ports, and communications is underway. The framework for encouraging public-private partnerships for developing physical infrastructure is also in place and is expected to yield positive results. The Eleventh Plan has also outlined a comprehensive programme for the development of the infrastructure sector.

The well-known ‘demographic dividend’ will manifest itself as a rise in the working age population aged 15 to 64 years, from 62.9 per cent in 2006 to 68.4 per cent in 2026. To tap this dividend, the Eleventh Plan focuses on ensuring better delivery of health care, generation of more employment opportunities and skill development improving employability of persons.

Table : 24

Sectors	GDP share (2006-07)	Impact	Assessment
Agriculture	18.5	Neutral	Growth would be more sensitive to weather induced fluctuations.
Mining	2.0	Negligible	Nearly 90% of mining consist of coal and crude. Only about 5%, particularly iron ore may have some moderation on export slowdown.
Manufacturing (based on status)			
Registered	10.5	Moderate	Some impact on account of export slowdown and liquidity squeeze. Decline in the ratio of PBDIT/Sales may reduce internal accruals and increase dependence on borrowings. (PBDIT/sales in Q2 is expected at 4.7% compared to 11.2% in Q2 of 2006-07. Adverse impact may get partially neutralized due to a decline in commodity prices.
Unregistered	4.9	Moderate	Though liquidity squeeze may be greater, their lower dependence on institutional credit may keep the impact moderate.
Manufacturing (based on sources of demand)			
Domestic consumption demand	While no separate share is available, these would be equally matching	Moderate	Consumer durables may remain under pressure.
Domestic investment demand		Moderate	Increase in credit cost may slow the pace.
Exports		Moderate	Global economic slowdown would impact
Electricity	2.1	Neutral	Global slowdown will not affect this sector. Positive sentiments because of the nuclear deal may see some activity.
Construction	7.2	Moderate	Higher risk weights and credit crunch will affect, though it may be moderate.
Trade and Recreation	15.4	Neutral	Sales growth continues to remain buoyant. Q2 expected sales growth of manufacturing at 36% is higher than 8.8% in Q2 of 2007-08.
Transport	6.6	Moderate	Rail transport (share of 1.2%) may not be affected. Road transport has some problem of acquiring vehicles because of credit choking. Air transport may have a larger impact.
Communication	4.9	Neutral	While some working capital constraints are reported, overall impact is likely to be negligible.
Insurance and Banking	6.7	Moderate	Domestic impact should be marginal as credit and deposit growths will remain buoyant. Margins are also not under pressure. But there may some increase in NPAs.
Business services and real estate	7.6	Moderate	Slowing world economy will impact business services. Real estate sector is likely to remain subdued.
Community and social services	13.6	Positive	Relates to defence and social sector services. Positive impact of pay commission and other wage increases should see growth to improve.

The circumstances continues to be largely favourable for sustained, rapid and a more inclusive growth of the economy. RBI in its review of Macroeconomic policy for first quarter of 2008-09 has indicated that the median forecast of professional agencies for GDP growth during 2008-09 at 7.9 per cent remains optimistic. Barring domestic or external shocks, RBI in its mid-term review estimates GDP growth during 2008-09 to be around 7.5 to 8.0 per

cent, which is reiteration of its earlier optimism. CMIE in its monthly review of Indian Economy in October 2008, however, has been more upbeat with a forecast of 8.7 per cent GDP growth based on its analysis of economy, particularly the investment in pipeline (lower than their initial estimate of 9.4 per cent in August-September 2008). Economic Advisory Council to the prime Minister has estimated real GDP growth during 2008-09 at 7.7 per cent. A moderation in growth in the current year is likely, but a growth between 7-8 per cent will still be one of the best under these circumstances.

The changing composition of demand in recent times is indicative of addition to productive capacity, which is likely to support higher growth rate of the economy. Investment in general is a forward-looking variable and its rise will reinforce the outlook for growth in the medium term. National Food Security Mission and Rashtriya Krishi Vikas Yojana are expected to provide the required impetus to agricultural growth, critical for concerns not only relating to food security and food prices but for an inclusive growth.

Global outlook, however, remain uncertain and in general depressing. The global economy, severely stressed by the financial market crisis, faces a serious downturn -- probably the most severe since the great depression of the 1930s. The crisis affects all of us, the difference is only of the intensity. The World Economic Outlook (WEO) of the IMF (October 2008) places the global output growth at 3.9 per cent in 2008 and 3.0 per cent in 2009. While domestic consumption and investment have been the main drivers of growth, GDP growth could get moderated because of slower growth of exports. This happens both because of a moderating global demand (as global income growth slows) and because of a possible under cutting by others to retain their market shares. On capital flows, while India retains its position as a preferred destination (latest World Investment Report places India as the second most preferred destination), there could be lesser inflow of portfolio capital. This may largely be due to the need for the global players to recoup positions elsewhere rather than because of a decline in profitability, both absolute and also relative to other emerging economies. Interest costs have already gone up and liquidity has squeezed and these are affecting industry.

In general, the improvement witnessed in the growth rate not only reflects sound and enabling macroeconomic policies but also demonstrates the growth potential that could be harnessed with further reforms and effective implementation of plans and programmes. There have, however, been renewed concerns on inflation. While it is to a significant extent emanating from global commodity price increases and lower domestic availability, both demand and supply management may need to be pursued.

Department of Revenue

I. Proposal for amendments in the Prevention of Money Laundering Act, 2002

The Prevention of Money Laundering Act, 2002 (PMLA) was enacted in 2002 and was enforced on 1st July, 2005 to address international obligations of India under Political Declaration and Global Programme of Action adopted by the General Assembly of United Nations. The aim of the Act is also to prevent money laundering and to provide for attachment, seizure and confiscation of proceeds of crime obtained or derived, directly or indirectly from money laundering.

2. The Prevention of Money- Laundering (Amendment) Bill, 2008, has been introduced in Rajya Sabha on 17th October, 2008, to strengthen the legal framework on anti money laundering and combating the financing of terrorism.

3. Briefly, the proposed Bill seeks to bring certain financial institutions like the Full Fledged Money Changers, Money Transfer Service Providers such as Western Union and International Payment Gateways like VISA and Master Card under the reporting regime of PMLA. The Bill also incorporates provisions to combat financing of terrorism and it introduces a new category of offences which have cross border implications. Further, it proposes to expand the scope of the Act by adding certain offences in Part A and Part B of the Schedule to the Act and introducing a new Part 'C' in the Schedule.

4. It is also proposed to include a number of offences, inter alia, under the Unlawful Activities (Prevention) Act, 1967, Explosives Act, 1884, Explosives Substances Act, 1908, Securities and Exchange Board of India Act, 1992, Customs Act, 1962, etc.

II. State Value Added Tax (VAT)

The decision to implement State VAT was taken in the meeting of the Empowered Committee of State Finance Ministers (EC) held on June 18, 2004, wherein a broad consensus was arrived to introduce VAT w.e.f. April 01, 2005. Accordingly, VAT has been introduced by all the States/UTs by now, except for the UTs of Andaman and Nicobar Islands and Lakshadweep that do not levy Sales Tax/VAT. Uttar Pradesh is the latest State which has introduced VAT w.e.f. 01.01.2008.

Introduction of State VAT is the most significant tax reform measure at State level. The State VAT has replaced the earlier Sales Tax systems of the States. Under Entry 54 of List II (State List) in the Seventh Schedule to the Constitution of India, "tax on sale or purchase of goods within a State" is a State subject

Since State VAT is a State subject, the Central Government is playing the role of a facilitator for successful implementation of VAT. The supportive steps taken by the Central Government, in the endeavour of the States to implement State level Value Added Tax are as follows:

- a) The Central Government got a Model VAT Bill prepared and circulated the same amongst the States, to help them initially in preparation of their respective VAT Bills. Similarly, an Audit Manual for VAT was also got prepared and circulated.
- b) The Central Government announced a package for payment of compensation to States for any revenue loss on account of introduction of VAT during 2005-06, 2006-07 and 2007-08. VAT Compensation is being released accordingly.
- c) The Central Government is arranging technical and financial support for North Eastern/ Special category States, as per their request, to enable them to take up VAT computerization and other necessary steps.
- d) Financial support is also being provided to the Empowered Committee of State Finance Ministers as well as the States for undertaking publicity campaigns and other activities facilitatory for VAT.
- e) 50% funding for the TINXSYS Project for inter-State information exchange is also being provided by the Government of India.

The experience of implementation of VAT since 2005-06 has been very positive. The transition to the new tax system has been fairly smooth. The trend of revenue collection in the VAT implementing States has also been encouraging. During 2005-06, the total revenue for VAT implementing States registered an increase of an about 13.8%, which was higher than the compounded annual growth rate (CAGR) for these States for the 05 years preceding (up to 2004-05). During 2006-07, there was a further significant improvement in the revenue performance of VAT implementing States/UTs, which collectively registered a growth rate of about 21% during the year 2006-07 as compared to previous year. During 2007-08, the gross revenue growth for all the States was 15.7%, which included a growth of about 24% in the VAT-items revenue.

In spite of a healthy aggregate growth in VAT revenues since 2005-06, Government of India has released compensation for States which have reported VAT revenue loss in relation to their previous revenue collection trends. A total amount of Rs. 2,471.27 crore was released to the States during 2005-2006, Rs. 4,092.13 crore was released during 2006-07, and Rs. 3880.48 crore was released during 2007-08. A further amount of Rs. 749.90 crore has been released to the States up to 01.10.2008 during the current financial year 2008-09.

III. Phasing out of CST:

The Central Sales Tax is levied under the provisions of the Central Sales Tax Act, 1956 on the sale of goods in the course of inter-State trade or commerce. CST is levied by the Central Government by virtue of Entry 92A of the Union List, but the same is assigned to the States within which the tax is leviable, by virtue of provisions of Article 269 of the Constitution of India.

It is an accepted fact that the CST, being a non-rebatable origin-based tax, is inconsistent with the input tax credit based VAT (which is a destination tax). Hence, the phasing out of CST is an agreed logical extension of State VAT implementation. This is also extremely important in the context of the plan to introduce a unified national level Goods and Services Tax (GST) w.e.f. 01.04.2010.

The issue of phasing out of the CST had been discussed extensively with the States, who have been insisting on being compensated for revenue loss on its account. The broad consensus arrived at with the States was for phasing out the CST over 3 years beginning from 01.04.2007 by reducing it by 1% every year so as to abolish it by 31.03.2010 (i.e. before the date appointed for introduction of GST). As part of this, the CST rate was reduced from 4% to 3% w.e.f. 01.04.2007 and thereafter from 3% to 2% w.e.f. 01.06.2008. It is proposed to reduce this further by 1% on the 1st of April in each of the succeeding years.

A package of compensation to the States for revenue loss on account of phasing out of the CST has also been agreed to. Under the package, the States are being compensated through a combination of non-monetary and monetary measures. As non-monetary components, the States were empowered to levy VAT on tobacco and the facility for concessional inter-State purchases by Government Departments/Undertakings were withdrawn, both w.e.f. 01.4.07, thereby resulting in enhanced States' revenues. Over and above these measures, an amount of Rs. 2168.88 crores was released as compensation to States on account of CST revenue loss during the Financial year 2007-08. A further amount of Rs.54.76 crore has been released up to 01.10.2008 during the current financial year 2008-09.

IV. Goods and Services Tax (GST):

The blurring of demarcation between goods and services being transacted in the economy has made separate taxation of goods and services untenable. Integration of taxes on goods and services based on Value Added Tax principles has evolved as the most modern and efficient form of indirect taxation and the same has adopted by a large number of countries (including Federal countries) around the world. Even in European countries, Value Added Tax covers both goods and services. In India also, the process of indirect taxation has been evolving on value addition principles. Introduction of an integrated Goods and Services Tax (GST) is targeted as the culmination of the tax reform efforts of last about two decades.

The Government has announced their policy intent to introduce a unified national Goods and Services Tax (GST) w.e.f. April 01, 2010. Since this would involve integration of Central and States' indirect taxes on Goods and Services, consultation between the Centre and the States on all issues related to GST was found necessary. Accordingly, it was decided that the Central Government and the Empowered Committee of State Finance Ministers (EC) shall work together to lay out a roadmap for introduction of GST throughout the country, w.e.f. April 01, 2010.

The Terms of Reference of the EC have accordingly been amended to include GST also. A Joint Working Group (JWG), consisting of officers of Central and State Governments, was constituted in May 2007 by the EC to examine various models and options for GST and to give assessment of their suitability for introduction of GST in India's fiscal federal context. The group presented its report to the EC on November 19, 2007. The EC has sent its recommendations to Government of India in the form of "*A Model and Roadmap for Goods and Services Tax in India*" dated April 30, 2008, which includes a basic outline of the GST design proposed.

The views of EC have been examined in depth in consultation involving the Tax Research Unit, Central Board of Excise & Customs, Commissioner Service Tax and Commissioner Central Excise also. The consolidated comments of the Department of Revenue, Ministry of Finance have been conveyed to the Chairman EC, so as to help streamline the GST design and facilitate working out of further details by them.

Central Board of Direct Taxes

1. Budget Collection:

- In **2007-08**, direct tax collections provisionally amounted to **Rs.3,14,468 crore**. The direct taxes collection exceeded both Budget Estimate of **Rs 2,67,490 crore** by a wide margin and even bettered the stiff target set in the Revised Estimates of **Rs.3,04,760 crore**. Thus **117.56%** of Budget Estimate and **103.19%** of Revised Estimate has been achieved.
- This is for the first time that the annual growth rate of direct tax collections has been more than **20%** for **six** consecutive years and the last year's growth was at stupendous rate of **36.62%** over previous year.
- **Direct tax-GDP ratio** for **2007-08** recorded at **6.67%** as against **5.55%** for **2006-07** even though the cost of collection was at an all time low of **0.54%** during 2007-08.
- The collection from arrear demand during 2007-08 stood at **Rs 9071 crore**. The outstanding arrear as on 31st March'08 stood at **Rs 1,24,273 crore**, however the outstanding arrear as a percent of Budget Collection has come down from **50.68%** in **2006-07** to **39.5%** in **2007-08**.
- The Budget Estimates for direct taxes for 2008-09 has been fixed at **Rs.3,65,000 crore**. The collections till **October 2008** records at **Rs. 1,66,905 crore**, which is **29.52%** more than the collections made during the corresponding period of 2007-08. However the final collection will substantially depend on advance tax payments during December'08 and March'09.
- Collections under **Fringe Benefit Tax** up to October 2008 amount to **Rs.4,061 crore**. Collections under **Securities Transaction Tax** and **Banking Cash Transaction Tax** for the same period are **Rs.3,724 crore** and **Rs. 366 crore**, respectively. There is a growth of **19%** in the collections under these three new taxes during April-October 2008 over the collections during the same period last year.
- The Pilot Project of **State Bank of India** acting as a **Refund Banker** has been running at **Mumbai, Kolkata, Chennai, Bangalore Delhi and Patna**. During April-Oct'08, a total number of **2,20,577 paper refunds** amounting to **Rs 260.25 crore** and **1,90,314 ECS refunds** amounting to **Rs 249.97 crore** have been issued to the tax payers.

2. TAX PAYER SERVICES

(i) TAX RETURN PREPARER SCHEME

1. The Government of India has launched the Tax Return Preparer Scheme to train unemployed graduates in select educational streams so that they assist the small and marginal taxpayers in preparation and filing of Tax Returns. The Tax Return Preparer Scheme (TRP Scheme) has been launched to serve the following objectives:

- **Reduction of the cost of compliance for small and marginal taxpayers;**
- **Increase in awareness of tax laws** amongst the taxpayers;
- **Involvement of community** for spreading awareness and for improving service delivery for increased compliance to tax laws; &
- **Provision of self-employment opportunities** to unemployed and underemployed graduates and a **chance to obtain and upgrade their skills.**

2. The scheme was launched in pursuance of the insertion of Section 139 B vide Finance Act, 2006.

3. Though certain other countries are running somewhat similar scheme offering assistance to senior citizens and small taxpayers in filing their returns, the **TRP Scheme is unique in its objectives, since it also seeks to provide self-employment opportunities** to unemployed and underemployed graduates.

4. The **highlights** of the scheme are as follows:

- Income tax department alongwith its **training partner NIIT** has trained the candidates selected through an enrollment test;
- Candidates were selected on the basis of open advertisement. Nearly, 50,000 candidates were first short listed on the basis of marks obtained by them at graduation level and then a written exam was conducted by a professional agency for their selection;
- After **9 week rigorous training programme at 100 centres** comprising of training in Income Tax Laws and computers, **3737 graduates** have successfully completed the end-of-course examination;
- Training has been imparted to **graduates from commerce, economics, maths, statistics, law and management** background;
- The training will enable them to prepare simple and straight forward returns of **individual and HUF taxpayers;**

- The cost of **training and publicity is being met by the government;**
- In order to ensure that the **TRPs are spread across the country**, selection of candidates was made on the basis of merit for each center separately;
- **Training at all the centers has been provided in a standardized manner** in terms of classroom facilities and environment, content of class lectures, study material, quality of teachers, help desk etc.. In order to maintain uniform standards, the scheme has been launched on **public-private partnership model;**
- The training partner, i.e. NIIT has been responsible for **content development (through Taxman who are leading in this field in India)**, instructors slides, instructors training, course material, selection of candidates, **class room training, website training and development, training through Learning Management System (LMS)**, management of help line etc;
- A **Resource Centre** headed by a Commissioner of Income-tax has been **set up by the Central Board of Direct Taxes** to monitor the implementation of the scheme. The Resource Centre **will constantly monitor the work of the TRPs in the field and issue quality alerts to them, as and when needed. The TRPs will also be required to undertake periodic on line training and exam.**
- The Departmental Website, the **dedicated website of the Tax Return Preparer Scheme (www.trpscheme.com)** and a Toll free help line 1800-11-8777 will provide the contact details of the TRPs to the taxpayers who propose to utilize their services; &
- The **password protected TRP website** would also **provide advanced learning material to enable them to upgrade their skills.** The website would keep them posted with the latest instructions, circulars, notifications and court judgments. There would a discussion forum and a **help line available for them to clarify their doubts while working in the field situation.**
- **Issue of certificates and hologramed Identity Cards** to certified TRPs and use of **TRP logo.**
- TRPs will prepare and file returns of income of resident individuals and HUFs but excluding assesses whose accounts are subject to statutory audit in any form.
- **Withdrawal of certification** of the TRPs in the event of mis conduct or deficiencies as notified in the scheme document.

- **The TRPs are authorized to receive some incentives from the department** if they prepare and **file returns of new taxpayers and stop filers**, (for filing of returns of new assesses or “stop filers”, 3%, 2% and 1% of net tax paid by the assessee for the 1st, 2nd and 3rd years will be reimbursed by the Government to the TRP. For an existing assessee, a sum of Rs.250 per return to be collected by the TRP from the assessee).
 - The selection of TRPs in 1006-07 is **not a one-off project**. Depending on the feedback and requirements of taxpayers, the Government will announce the enrollment test for certification of more Tax Return Preparers.
5. The Tax Return Preparers Scheme is **unique in several ways**:
- This is the first taxpayer service **specially designed for small and marginal taxpayers**;
 - This is an attempt by the department of invoke ‘**Community participation**’ for **delivering service closer to the doorstep of the taxpayers**;
 - This is a direct attempt by the Department to reduce **the cost of compliance of small and marginal taxpayers and encourage compliance amongst them**;
 - The scheme gives a unique opportunity for the Income Tax Department to **provide self-employment opportunities to the bright youth** of the country and give them a platform to **extend a helping hand to the members of their community**.
6. The **response to this scheme has been over whelming**. **More than 90,000 people applied** for the training as TRPs, of which **47,227 candidates were short listed** by our training partner NIIT for entrance examination. **4517 candidates joined the training**, out of which **3737 candidates** who scored 60% marks or more in their ‘end of course examination’ **qualified for certification**.
7. The trained TRPs have started functioning and have assisted small taxpayers to **prepare and file their returns from July, 2007**.
8. **TRPs are neither departmental employee nor agents of the department**. They are graduates who have been trained by the department and their training is recognized by the Government for the purpose of preparation and filing of tax returns u/s 139 B of the Act.
9. The Government of India is committed to the Scheme and the TRPs. The Government will play an active role in achieving the objectives of the scheme while lending a helping hand to the qualified Tax Return Preparers to succeed. The Government has advised the availability of the Tax Return

Preparers and also their names, addresses, e-mail ID and telephone number so that the tax-payer can easily locate his nearest TRP. These details will also be available at the TRP website. In cities where special arrangements are made for receipt of returns, a special counter has been provided for the TRPs, e.g. at Pragati Maidan in New Delhi in July 2008.

10. The Government is in the process of reviewing the implementation of the Scheme so far, to enlarge the scope of functioning of TRPs. Certain additional areas of work like filing of TDS and Service Tax Returns has been identified jointly by Central Board of Direct Taxes and Central Board of Customs and Central Excise to make the scheme more effective.

INVESTIGATION

1. One of the major work of Investigation Directorate is to collect intelligence in respect of tax evasion and to conduct search and seizure operations all over the country. Investigation Wing also conducts surveys, inquiries and investigates the complaints or petitions with regard to tax evasion. For collecting information from Different sources, there are 14 cells under Central Information Bureau in different parts of country. The Investigation Directorates function under administrative control of 14 Directors General of Income Tax (Inv.) in different regions, and also one Director General of I.T. (Intl.).

2. Assessment of undisclosed income, detected during search & seizure operation is generally made in special charges called “Central Charges”. At Chief Commissioner level, there are three Chief Commissioners of Income Tax supervising the work of Central Charges (2 at Mumbai and 1 at Delhi). At other places, work of Central Charges is looked after by the respective DGIT (Inv.). At Commissioner level, there are 24 Commissioners for Central Charges, who are assisted by Additional/Joint/Deputy/Assistant Commissioners of Income Tax.

3. Member (Inv.), CBDT monitors Search & Seizure work, other investigation matters and search assessments and coordinates with other investigating agencies like CBI, ED, SEBI, Company Law Board, FIU, CEIB etc. Matters relating to survey, penalty and prosecution are also dealt by Member (Inv.).

4. In particular, with regard to coordination with CEIB all reports of searches carried out by the field offices are sent to CEIB within 24 hours. Details of search & seizure conducted during the current Financial Year (up to 30th September, 2008) and corresponding figures for the last Financial Year 2007-08 are as under:

Period	No. of warrants executed*	Value of Assets seized (Rs. In lakh)*			
		Cash	Jewellery	Other Assets	Total
F.Y. 2008-09 (up to 30.09.2008)	1538	15068.91	5323.16	1315.13	21707.20
F.Y. 2007-08 (up to 30.09.2007)	1469	8941.87	5225.06	2990.76	17157.69

COMPUTERISATION IN INCOME TAX DEPARTMENT

Project name:

E-filing of Income Tax Returns

Project Description

Enabling E-filing of all Income tax returns over Internet directly by taxpayers and through e-return intermediaries since AY 2006-07. Providing PAN and TAN verification service.

Project Features

1. The e-filing project is a high impact, high visibility project of significant importance to the Government and taxpayers with many achievements. The first cycle of e-filing of I-T return by companies was completed in 2006-07 wherein nearly 3.7 lakh returns were filed. However, only about 1% of I-T returns were filed voluntarily. It established a foundation for an alternative channel for I-T return receipt. **E-Filing for all I-T returns for AY 2008-09 commenced from 19/04/2008 (within 3 weeks of notification of new I-T Return forms by CBDT). As on 31/10/2008, nearly 29 Lakh e-returns have been received and total expected e-returns for 2008-09 is 45 Lakh. The Income Tax Department is encouraged by the enthusiastic response by taxpayers to E-filing of I-T returns**

2. There has been an increase in number of Income tax returns from 3.7 lakh in 2006-07 to over 21.93 lakh in 2007-08 (till 31/03/2008) and nearly 30 lakh till date in 2008-09.

i)Of the e-returns filed, nearly 2/3rds have been filed voluntarily by taxpayers indicating the broader acceptance of the convenience of e-filing.

ii)Electronic return filing before or after regular office hours (9am to 6pm) is another indicator of taxpayer convenience. More than a quarter of all e-returns have been filed beyond office hours.

iii)Though use of digital signature was optional, over 40% of corporate returns and 10% overall have been filed using digital signature, making the entire return filing process - paperless in such cases.

3. The Electronic Filing of Income Tax Returns project of the Income Tax Department has been awarded the National E-Governance Silver Award in the category ‘Outstanding Performance in Citizen Centric Service Delivery’.

4. The Department has also launched Web Services by which E-Return Intermediaries would be able to directly / remotely upload taxpayer returns without having to login to the E-Filing website and taxpayers would receive the acknowledgement over email.

Project name:**Centralized Processing Center (CPC) for Income Tax Returns at Bangalore****Project Description**

Enabling Centralized Processing of all Income tax returns at a single location

Project Features

1. CPC at Bangalore would process paper and e-returns without any interface with taxpayers in a jurisdiction free manner using a partially outsourced model.
2. The CPC would be set up and managed by a Service Provider (SP) selected through a competitive bid process.
3. The Service Provider would be responsible for picking up the returns from I-T offices, scanning, data entry, and processing of return, subsequent issue of refund and physical storage of returns.
4. Officers and staff of the Department would be operating mainly in supervisory capacity and would resolve exceptions when escalated by the Service Provider.
5. The Department would enforce service level standards (SLAs) for turnaround time for processing, data accuracy in tax and interest computation, reduction in number of rectification due to incorrect tax and TDS credits.
6. Initially the CPC would be implemented at Bangalore where paper returns of Karnataka and an adjoining state (upto 20 lakh) and all Electronic returns (upto 60 lakh) would be processed. Once the technical and operational objectives of CPC are fully tested and operational then it would be replicated at other centers.
7. The CPC would initially process transactions for all e-filed ITRs and physical ITRs for Bangalore. As the CPC stabilizes, the physical ITRs from Karnataka and Goa and an adjoining state would also be given to the CPC.
8. The CPC would enable the Department to cope with rapid growth in the number of taxpayers and consequently the volume of work for employees. It would allow the Department to bring in more efficient processes and modern citizen services offered by the best Tax Administrations across the globe. Eventually, it is envisaged that the CPC model would be replicated across the country, having gained experience and learning from the CPC in Bangalore.
9. The CPC at Bangalore is expected to be operational by the end of FY 2008-09.

Systems Integrator Project of the CBDT.

The Income Tax Department has taken up a project to consolidate the 36 Regional data bases of Income Tax Department to one National Data Base (to be named as Primary Data Centre at Delhi) with another datacenter at Mumbai having complete backup of data (named as Business Continuity Site (BCP)) and another backup site at Chennai known as Disaster Recovery (DR) site.

The project involves providing support for computerization for approximately 13000 departmental users located in 530 cities covering 705 buildings. The overall solution includes solutions like messaging, security, anti-virus, etc. The Systems Integrator would also provide help desk services to Income Tax Department users for problem reporting and resolution. The S.I. vendor would also coordinate with other vendors in

the project such as application vendor, network provider, data base software provider, data centre vendor and anti-virus software vendor.

The project is under implementation. 24 out of 36 regional data bases have already been consolidated and it is expected that all 36 data bases would be consolidated by 31.12.2008.

Background note on issues/developments, policy initiatives and achievements {relating to the CIB/i-taxnet module under Directorate of Income Tax (Systems)}

(I) Annual Information Returns (AIR): AIR is a tool for collecting 'high value financial transaction' information in a structured manner, through computer media with PAN as unique identifier for ensuring tax compliance, widening and deepening of tax-base, creating a tax-payer profile and to lead to Data warehousing/ Business Intelligence. The scheme for filing of AIR by the main nerve centres of financial activities such as Banks, Credit card companies/institutions, Companies (issuing public/rights issue of shares and bonds/debentures), Registrars of immovable property, Mutual Funds and RBI (issuing RBI bonds), has been in operation since August, 2005 in respect of specified financial transactions registered/recorded by them during the financial year (beginning on or after April 1, 2004).

The facility for electronic filing of Annual Information Return (AIR) has been provided both on-line (on the Tax Information Network website tin-nsdl.com) and through front offices of NSDL (National Securities Depository Ltd.) called TIN facilitation Centres (presently available at 460 locations all over the country).

The information on transactions available in the Annual Information Returns for F Y 2004-05 to 2006-07 were uploaded on the departmental systems and also disseminated off-line to field authorities of Income Tax Department to be utilized for generating list of cases for scrutiny, and for taking action u/s 148 of the Income Tax Act for re-opening the assessments as well as for identification of non-filers to widen the tax base. The information on transactions available in the Annual Information Returns for F Y 2007-08 is also proposed to be utilized in similar manner.

(II) Securities Transaction Tax (STT) Returns

Securities Transaction Tax (STT) has been introduced by Finance Act, 2004. The STT returns are also proposed to be utilized through TIN for the following purposes:

(a) The data in STT returns would flow to the jurisdictional assessing officer of the STT return filer for processing the STT return, i.e. for verification of STT returns with reference to checking of deduction of STT and its payment, for generating list of non-filers, late filers, issue of notice for filing of return, issue of demand notice, issue of penalty notice, calculation of tax and interest payable, credit of tax payment with reference to Online Tax Accounting System (OLTAS) etc.

(b) The software to handle the transaction data would take the data of the transacting parties from the STT returns, collate it and would populate such data in the ITS (Individual Transaction Statement) to the respective Assessing Officer of the transacting party (on the basis of PAN of the transacting party) for verification with the return. The process flow would be similar as that for the AIR transaction data.

The Software Requirement Specifications (SRS) are being finalized in consultation with TCS for the purpose.

(III) **Sevottam:** A pilot on Sevottam (excellence in delivery of service to taxpayers) is in operation at Mumbai and Udaipur. The pilot is hosted on the departmental intranet being maintained by the DIT(Systems). Based on feedback, it is proposed to be extended in phases to other locations.

(III) **AIR (Annual Information Return): (STATUS AS ON 31.10.2008)**

Sl.	Category of Transaction	AIR for F Y 2005-06		AIR for F Y 2006-07		AIR for F Y 2007-08	
		No. of transactions	Value (in Rs. Crore)	No. of transactions	Value (in Rs. Crore)	No. of transactions	Value (in Rs. Crore)
1	Cash deposits aggregating to Rs. 10 lakhs or more in a Savings account with a bank	4,73,940	62,823	5,81,658	1,02,609	6,70,533	1,61,917
2	Payment against Credit card bills aggregating to Rs. 2 lakh or more	2,09,413	8,818	2,93,199	13,994	3,96,465	34,131
3	Payment of Rs. 2 lakh or more for purchase of units of Mutual Fund	10,14,205	10,25,621	10,50,240	18,86,181	14,00,071	41,57,214
4	Payment of Rs. 5 lakh or more for acquiring Bonds/debentures issued by a company	26,135	1,25,710	35,549	2,31,653	38,838	4,05,580
5	Payment of Rs. 1 lakh or more for acquiring shares (through public or rights	1,51,542	88,701	1,45,549	1,25,817	75,412	1,15,718

	issue) issued by a company						
6	Purchase of Immovable property valued at Rs. 30 lakh or more	64,524	94,526	77,377	84,464	70,528	94,091
7	Sale of Immovable property valued at Rs. 30 lakh or more	64,938	95,378	68,538	76,431	63,797	94,046
8	Payment of Rs. 5 lakh or more in the aggregate for purchase of RBI Bonds	1,57,953	1,77,658	43,311	1,81,860	3,161	3,52,338
	TOTAL	21,62,650	16,79,234	22,95,421	27,03,010	27,18,805	54,15,035

Comparative statistics of valid PAN in AIR for F. Y. 2005-06, 2006-07 and 2007-08

2005-06	Transaction type	Total	With PAN	PAN cases %
	Cash deposits	4,23,354	1,15,797	27.35
	Credit card	1,89,602	23,536	12.41
	Mutual Fund	12,15,022	10,52,423	86.62
	Bonds / debentures	31,439	17,726	56.38
	Shares	1,49,540	1,24,187	83.05
	Immovable property purchase	85,791	16,052	18.71
	Immovable property sale	1,20,885	18,747	15.51
	RBI Bonds	1,48,473	89,408	60.22
	Total	23,64,106	14,57,876	61.67
2006-07	Cash deposits			30.64

		5,55,381	1,70,151	
	Credit card	2,93,019	68,202	23.28
	Mutual Fund	13,01,637	11,55,579	88.78
	Bonds / debentures	44,858	39,375	87.78
	Shares	1,47,140	1,33,979	91.06
	Immovable property purchase	1,32,668	50,997	38.44
	Immovable property sale	1,43,724	28,964	20.15
	RBI Bonds	45,776	34,650	75.69
	Total	26,64,203	16,81,897	63.13
2007-08	Cash deposits	7,03,705	2,77,034	39.37
	Credit card	3,96,649	1,62,448	40.96
	Mutual Fund	17,22,172	16,53,250	96.00
	Bonds / debentures	46,425	42,055	90.59
	Shares	64,281	58,468	90.96
	Immovable property purchase	1,15,873	52,248	45.09
	Immovable property sale	1,38,303	37,211	26.91
	RBI Bonds	3,911	3,525	90.13
	Total	31,91,319	22,86,239	71.64

Biometric PAN Project:

1. PAN (Permanent Account Number) is a 10 digit alfa-numeric number allotted by the Income Tax Department to taxpayers and to the persons who apply for it. The business process of issuance of PAN has been outsourced to M/s NSDL and M/s UTITSL, who, through their wide network of front offices, receive and process the PAN applications

and issue the PAN card to the applicants after the PAN number is allotted by the Income Tax Department.

2. The Income Tax Act permits one person to have only one PAN. However, it has been noticed that several persons have managed to obtain more than one PAN by making slight variations in their personal informations submitted in the PAN application form. The present duplication-detection software is not able to detect all the duplicate PANs. Therefore, the IT department has decided to put in place a biometric solution to ensure that no duplicate PAN is issued i.e. same person does not get more than one PAN number. Biometric information, being more stable with time and difficult to change, would be able to detect duplicate PAN application with much higher accuracy.
3. It has been decided to capture the biometric features like the 'face' and 'four fingers' (two from each hand) of the applicant and do the matching of the biometric feature in the backend against the database to detect the duplicate PAN applicants. A consultant (Ernst & Young) has been engaged to assist the IT department in preparation of RFP and selection of the best biometric solution provider. The RFP would be issued very shortly and the rollout of the biometric PAN is envisaged in one and half years.

Refund Banker Scheme:

- A. **The Refund Banker project is a highly successful mechanism which has enabled efficient and safe delivery of Income Tax refunds. It introduces a third party into the physical issue of refunds so as to make the process completely automated and transparent. It now serves All taxpayers (except Corporate assesseees & institutional tax filers) in Bangalore, Delhi, Chennai, Kolkata, Mumbai, and Patna.**
The refund amount is computed on computerized systems by the Assessing Officer (AO). However the **activity of physically issuing refunds is de-linked from the AOs sphere of business.** Refund related data is sent electronically on the same day to the Refund Banker and a cheque is issued or the refund is credited into the account of the taxpayer electronically.
- B. Since State Bank of India has been involved in the existing refund process for the Income Tax Department, it implements the Scheme. The SBI's **Cash Management Product Department's core competence is in handling mass transfers of funds through banking channels.**
- C. In the Refund Banker Scheme, SBI is mandated to carry out all tasks from printing to despatch of refunds in the premises of the Cash Management Product Department under supervision of senior officers. **Cheques along with a detachable advice are printed,**

inserted and dispatched within 3 days of receipt of data from the Income Tax Department.

- D.** Through the Refund banker Scheme, 4,60,200 paper refunds amounting to Rs. 574.37 crore have been issued upto 7th November, 2008. Through ECS mode, the number of refunds are 3,77,673 amounting to Rs. 473.49 crores.
- E.** Electronic refunds are now delivered through NEFT and NECS modes. In these modes the refunds are credited to the taxpayer's account in less than 3 days after data is delivered to SBI.
- F.** The proportion of taxpayers asking for refunds through electronic mode has increased steadily .The refund banker scheme has incentivised the use of electronic mode of refund delivery.

Time period	Paper cheques	Electronic refunds (ECS)	Total
Till F.Y. 07-08	2,64,680	1,47,015	41,1695
April 08	19,826	19,724	39,550
May 08	27,444	23,686	51,130
June 08	24,596	23,456	48,052
July 08	20,369	22,361	42,730
August 08	30,755	27,829	58,584
September 08	53,609	35,577	89,186
October 08	43,977	34,876	78,853

FOREIGN TAXATION

In CBDT, the FT&TR-I Division is primarily working towards negotiating DTAAAs with various countries. These divisions are also dealing with various matters related to bilateral/multilateral international organisations so as to ensure closer co-operation in taxation related issues at international level. Various issues/developments of policy initiatives and achievements related to these divisions during the current financial year are as under:

1. Notification of DTAA with Iceland:

The DTAA with Iceland was notified in the Gazette of India vide S.O. 241(E) dated 5th February 2008.

The Agreement entered into force on 21st December 2007 and has been given effect to in India with respect to taxes withheld at source, for amounts paid or credited on or after 1st April 2008 and with respect to taxes on income for any financial year beginning on or after 1st April 2008.

This DTAA will cover in the case of India, income-tax including any surcharge thereon and in the case of Iceland, income-tax to the State and to the municipalities. The DTAA provides for taxation of dividend, interest, royalties and fees for technical services – both in the country of residence as well as the country of source. However, the rate of tax in the country of source shall not exceed ten percent of the gross amount of payment in case the beneficial owner of the payments is a resident of the other Contracting State. The DTAA also provides that capital gains from alienation of shares of a company shall be taxable in the country where the company is a resident.

The incidence of double taxation shall be avoided by one country giving credit for taxes paid by its residents in the other country. There is a provision for exchange of information between the two countries. Both the countries shall also assist each other in collection of revenue claims. Further, there is a provision for limitation of benefits under the DTAA to prevent misuse of the provisions of the DTAA.

The Agreement will further stimulate the flow of capital, technology and personnel between the two countries. It will also contribute to the tax stability and facilitate mutual cooperation.

2. Signing of DTAA with Luxembourg:

During the month of June, 2008, the Government of the Republic of India signed a Double Taxation Avoidance Agreement with the Government of the Grand Duchy of Luxembourg for the avoidance of double taxation and for the prevention of fiscal evasion with respect to taxes on income and on capital. The Agreement also aims at promoting economic cooperation between the two countries. The DTAA between India and Luxembourg will cover in the case of India, the income-tax and the wealth tax including any surcharge thereon. In the case of Luxembourg it would cover the income tax on individuals, the corporation tax, capital tax and the communal trade tax. This Agreement shall enter into force on a date to be notified.

The DTAA provides for taxation of dividend, interest, royalties and fees for technical services-both in the country of residence as well as the country of source. However, the rate of tax in the country of source shall not exceed ten percent of the gross amount of payment in case the beneficial owner of the payments is a resident of the other Contracting State. The DTAA provides that capital gains from alienation of shares of a company shall be taxable in the country where the company is a resident. The incidence of double taxation shall be avoided by one country giving credit for taxes paid by its residents in the other country. There is a provision for exchange of information in cases, which are under investigation in either of the two countries. Both the countries shall assist each other in collection of revenue claims. There is also a provision for limitation of benefits under the DTAA to prevent misuse of the provisions of the DTAA.

The Agreement will further stimulate the flow of capital, technology and personnel between the two countries. It will also contribute to the tax stability and facilitate mutual cooperation.

2. Conclusion of DTAA at official level:

During the year DTAAAs with the Government of Albania, Government of Azerbaijan and Government of Lithuania were concluded at the official level. Steps are being taken for completion of the internal procedures on both the sides so that the Agreements can be signed at the Government level. In the case of the Agreement with Latvia signed at the official level, approval of the Cabinet was obtained during the year. The Agreement is now to be signed at the Government level on a date convenient to the two sides, i.e. India and Latvia.

3. Negotiations in progress for entering into DTAA:

During the year, first round of negotiations for entering into DTAA were held with Estonia, with whom India does not have a DTAA. Further, in cases of Malta and Norway where a DTAA already exists, first and second round of negotiations, respectively, were held to revise the existing DTAA.

4. Notifications related to DTAAAs:

During the year a notification vide S.O. 75(E) dated 10th January 2008 was issued for including FINNVERA and Finnish Export Credit (FEC) in list of institutions mentioned in item (ii) of sub-paragraph (a) of paragraph 3 of Article 12 of the India-Finland Double Taxation Avoidance Convention, thereby exempting interest income of these institutions arising in India from Indian income-tax.

The Indo-Japan DTAC was also amended by substituting “International business unit of Japan Finance Corporation” for “Japan Bank of International Cooperation” in sub-clause (ii) of clause (a) in paragraph 4 of Article 11 of the DTAC, thereby exempting interest income of the International business unit of Japan Finance Corporation arising in India from Indian

income-tax and withdrawing such exemption from the Japan Bank of International Cooperation, which ceased to exist after October 1, 2008. Notification No.96/2008 dated October 8, 2008 in this regard was issued vide S.O. 2428(E), which shall have effect from October 1, 2008.

5. Notifications under the Income-tax Act:

During the year two notifications - Notification No.91/2008 vide S.O. 2123(E) dated 28.8.2008 under sub-section (3) of section 90 of the Income-tax Act, 1961 and Notification No.90/2008 vide S.O. 2124(E) dated 28.8.2008 under sub-section (3) of section 90A of the Income-tax Act, 1961 were issued to clarify that where any Agreement with a country outside India or a specified association in a specified territory outside India provides that any income of any resident “may be taxed” in the other country, such income shall be included in his total income chargeable to tax in India in accordance with the provisions of the Income-tax Act, 1961 and relief shall be granted in accordance with the method for elimination or avoidance of double taxation provided in the Agreement.

TPL

Major changes by Finance Act, 2008

A. Changes in tax rates.

1. The basic exemption limit has been increased from Rs. 1,10,000/- to Rs. 1,50,000/-.
2. The exemption limit for every woman resident in India and below the age of sixty-five years has been raised from Rs. 1,45,000/- to Rs. 1,80,000/-.
3. The basic exemption limit for every individual resident, who is of the age of sixty-five years or more, has been raised from Rs. 1,95,000/- to Rs. 2,25,000/-.
4. Section 111A and 115AD provide for special tax rate of ten per cent on short-term capital gain arising from the transfer of a short-term capital asset, being an equity share in a company or a unit of an equity oriented fund, where such transaction is chargeable to securities transaction tax. This rate of tax has been increased to fifteen percent from A.Y.2009-10 onwards.
5. In the case of every company, other than a domestic company, surcharge at the rate of two and one-half per cent shall be levied only in cases where the total income exceeds one crore rupees. However, marginal relief is allowed in all these cases to ensure that the additional amount of income-tax payable, including surcharge, on the excess of income over one crore rupees is limited to the amount by which the income is more than one crore rupees.
6. Also, in the case of every company having total income chargeable to tax under section 115JB of the Income Tax Act and where such income exceeds one crore rupees, marginal relief is allowed.

B. Other major changes by Finance Act, 2008

Amendment	Rationale for Amendment
An Explanation in section 2 of the Income-tax Act, has been inserted providing that any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.	“Agricultural income” is defined in section 2(1A) of the Act to mean, <i>inter-alia</i> , income derived from land which is situated in India and is used for agricultural purposes. Such agricultural income is exempt from tax under section 10(1) of the Income-tax Act, 1961 (‘Act’). It has been held by judicial authorities that whether income from nursery operations constitutes agricultural income or not, will depend on the facts of each case. If the nursery is maintained by carrying out basic operations on land and subsequent operations are carried out in continuation of the basic operations, then income from such nursery would be agricultural income not liable to tax under section 10. However, if the nursery is maintained independently without resorting to basic operations on land, then income from such nursery would not be agricultural income and would be liable to be included in the total income. With a view to giving finality to the issue, the section

	<p>2(1A) has been amended so as to provide that any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income. Accordingly, irrespective of whether the basic operations have been carried out on land, such income will be treated as agricultural income, thus qualifying for exemption under section 10(1) of the Act.</p>
<p>The clause (15) of Section 2 has been providing that “charitable purpose” includes relief of the poor, education, medical relief, and the advancement of any other object of general public utility, Provided that the advancement of any other object of general public utility shall not be a charitable purpose, if it involves the carrying on of any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention, of the income from such activity;.</p>	<p>Section 2(15) of the Act defines “charitable purpose” to include relief of the poor, education, medical relief, and the advancement of any other object of general public utility. It has been noticed that a number of entities operating on commercial lines are claiming exemption on their income either under section 10(23C) or section 11 of the Act on the ground that they are charitable institutions. This is based on the argument that they are engaged in the “advancement of an object of general public utility” as is included in the fourth limb of the current definition of “charitable purpose”. Such a claim, when made in respect of an activity carried out on commercial lines, is contrary to the intention of the provision.</p> <p>With a view to limiting the scope of the phrase “advancement of any other object of general public utility”, the section 2(15) has been amended.</p>
<p>Section 10 of Income-tax Act relates to incomes which do not form part of total income. A new clause (26AAA) in section 10 has been inserted to provide that the following income, which accrues or arises to a Sikkimese individual, shall be exempt from income-tax –</p> <p>(a) income from any source in the State of Sikkim; or</p> <p>(b) income by way of dividend or interest on securities</p> <p>This exemption will not be available to a Sikkimese woman who, on or after 1st April, 2008, marries a non-Sikkimese individual.</p>	<p>This exemption was provided as a measure to promote socio-economic development.</p>
<p>Sub-clause (h) in clause (29A) of section 10 has been inserted and shall be deemed to have been inserted with effect from the 1st day of April, 2002, providing that any income accruing or arising to the Coir Board established under section 4 of the Coir Industry Act, 1953 (45 of 1953) shall not be included in computing the total income.</p>	<p>Section 10 (29A) provides that any income of certain specified commodity boards and export development authorities shall be exempt from income tax. A similar exemption in respect of any income accruing or arising to the Coir Board established under the Coir Industry Act, 1953 has been allowed as a measure to promote socio-economic development.</p>
<p>Clause (43) in section 10 has been inserted providing that any amount received by an individual as a loan, either in lump sum or in instalment, in a transaction</p>	<p>Consequent to these amendments, a borrower, under a reverse mortgage scheme, is liable to income tax (in the nature of tax on capital gains) only at the point of</p>

<p>of reverse mortgage referred to in clause (xvi) of section 47 shall not be included in computing the total income.</p>	<p>alienation of the mortgaged property by the mortgagee for the purposes of recovering the loan. These amendments are applicable with effect from 1st April 2008.</p>
<p>In section 35 of the Income-tax Act, with effect from the 1st day of April, 2009, in sub-section (1), clause (iia) has been inserted providing that in respect of expenditure on scientific research, an amount equal to one and one-fourth times of any sum paid to a company to be used by it for scientific research shall be allowed as deduction subject to prescribed conditions. Clause (6) has been inserted in sub-section (2AB) of Section 35 according to which no deduction of the expenditure incurred by the company engaged in scientific research after the 31st day of March, 2008 shall be allowed.</p>	<p>Section 35(1)(ii) of the Income-tax Act, provides for weighted deduction to a payer, to the extent of 125 per cent of the sum paid to an approved scientific research association, approved university, college or other institution to be used for scientific research subject to certain other specified conditions. With a view to encouraging outsourcing of scientific research, particularly by small companies which are handicapped in making lumpy investment for building in-house scientific facilities, new clause (iia) in sub-section (1) of section 35 of the Income-tax Act has been inserted to allow a weighted deduction of 125 per cent of the amount paid by a person to a company to be used for scientific research subject to prescribed conditions. However, with a view to avoid multiple claims for deduction, the entitlement of deduction of 150% under section 35(2AB) by a company approved under the provisions of section 35(1)(iia) has been removed. However, deduction to the extent of 100% of the sum spent as revenue expenditure on scientific research which is available under section 35(1)(i) will continue to be allowed.</p>
<p>Section 35D has been amended making service sector eligible for deduction of certain specified preliminary expenses.</p>	<p>Section 35D provides for deduction of certain specified preliminary expenses. The deduction is allowed to industrial undertaking or unit on an amount equal to one fifth of such expenditure for five successive previous years. With a view to providing a level playing field to the services sector, the same benefit of amortization of specified post-commencement preliminary expenses as is available to the manufacturing sector for the extension of an undertaking or the setting up of a new unit the amendment was made.</p>
<p>The provisions of section 40(a)(ia) was amended allowing additional time (till due date of filing of return of income) for deposit of TDS pertaining to deductions made in the month of March so that disallowance u/s 40(a)(ia) is not attracted in such cases. This date, in most cases of TDS deductors would be 30th September. The taxpayer (deductor) will therefore get a time of six months (April to September) for depositing the tax deducted at source on an expenditure incurred in the month of March so as to escape disallowance u/s 40(a)(ia). This amendment has been made with retrospective effect</p>	<p>To mitigate any hardship caused by provisions of section 40(a)(ia) while maintaining TDS discipline, the Finance Act, 2008 amended provisions of section 40(a)(ia). The provisions of section 40(a)(ia) relating to payments made to residents was introduced not only to ensure greater compliance of the TDS provisions but also to curb non-genuine payments on account of interest, commission, brokerage, etc.</p>

<p>from assessment year 2005-06.</p>	
<p>Clause (a) of sub-section (3) of Section 40A of the Income-tax Act, 1961 provides that any expenditure incurred in respect of which payment is made <u>in a sum</u> exceeding Rs.20,000/- otherwise than by an account payee cheque drawn on a bank or by an account payee bank draft, shall not be allowed as a deduction. Clause (b) of sub-section (3) of section 40A also provides for deeming a payment as profits and gains of business or profession if the expenditure is incurred in a particular year but the payment is made in any subsequent year in a sum exceeding Rs. 20,000/- otherwise than by an account payee cheque or by an account payee bank draft. However, the provisions of this section are subject to exceptions as provided in Rule 6DD of the Income-tax Rules, 1962. The provisions of section 40A(3) have been amended providing that the provisions of section 40A(3) shall also be attracted where the aggregate of payments made to a single party otherwise than by an account payee cheque drawn on a bank or account payee bank draft exceeds twenty thousand rupees in a day.</p>	<p>Section 40A(3) is an anti tax-evasion measure. By requiring payments to be made by an account payee instrument, it is possible to verify the genuineness of the transaction. Thereby the risk of evasion is substantially mitigated. Field formations have reported that assessee tend to circumvent the provisions of section 40A(3) by splitting a particular high value payment to one person into several cash payments, each below Rs. 20,000/-. This splitting is also resorted to for payments made in the course of a single day. The courts have approved such splitting by interpreting the words 'in a sum' used in the section to mean a single sum thereby applying the limit to each transaction. The interpretation by the courts is against the legislative intent and has, consequently, adversely affected the efficacy of this anti-abuse provision. Therefore, the provisions of section 40A(3) have been amended accordingly.</p>
<p>In sub-section 6 of section 43 of the Income-tax Act, <i>Explanation</i> has been inserted and shall be deemed to have been inserted, with effect from the 1st day of April, 2003, which provides that where an assessee was not required to compute his total income for the purposes of this Act for any previous year or years preceding the previous year relevant to the assessment year under consideration, the actual cost of an asset shall be adjusted by the amount attributable to the revaluation of such asset, if any, in the books of account and the total amount of depreciation on such asset, provided in the books of account of the assessee shall be deemed to be the depreciation actually allowed under this Act. The depreciation actually allowed shall be adjusted by the amount of depreciation attributable to such revaluation of the asset.</p>	<p>The amendment was made to clarify the legislative intention as in one the case, The Income Tax Appellate Tribunal (ITAT) has held that since there was no liability to tax, there was no occasion to compute the income of such person under the provisions of the Income-tax Act. Therefore, the depreciation provided in the books in the years when the income was exempt cannot be treated as the depreciation "actually allowed". Accordingly, it was held that the actual cost of the asset was the written down value for the purposes of claiming depreciation under the Income-tax Act in the previous year in which such person first ceases to enjoy the income-tax exemption. This interpretation is not in conformity with the intent and purpose of the provisions of depreciation and the amendment was made.</p>
<p>Subsection (xa) in section 47 was inserted to provide that the conversion of FCEBs into shares or debentures of any company shall not be treated as a 'transfer' within the meaning of Income-tax Act. Further sub-section (2A) of section 49 was amended to provide that the cost of acquisition of the shares received upon conversion of the bond shall be the price at which the corresponding bond was acquired.</p>	<p>In 1992, the Government allowed established Indian companies to issue foreign currency convertible bonds (FCCB), with special tax regime for non-resident investors, so as to encourage the flow of foreign exchange to India. The Government has now allowed established Indian companies to issue foreign currency exchangeable bond (FCEB). These are bonds expressed in foreign currency, the principal and interest in respect of which is payable in foreign currency. The FCEBs differ from FCCBs in as much</p>

	as the latter can only be converted into shares of the issuing company, whereas FCEBs can also be converted into or exchanged for the shares of a group company. With a view to providing a level playing field to FCEBs the amendment was made.
Sub-section (9) of section 80-IB provides for a hundred percent deduction of profits and gains derived from commercial production or refining of mineral oil. For the purpose of this section, the term 'mineral oil' does not include petroleum and natural gas, unlike in other sections of the Act. The deduction under this sub-section is available to an undertaking for a period of seven consecutive assessment years including the initial assessment year	<p>A new proviso in sub-section (9) of section 80-IB has been inserted so as to provide that no deduction under this sub-section shall be allowed to an undertaking engaged in refining of mineral oil if it begins refining on or after the 1st day of April, 2009 unless it fulfils certain specified conditions, namely:</p> <p>It is wholly owned by a public sector company or any other company in which a public sector company or companies hold at least forty-nine per cent of the voting rights; It is notified by the Central Government on or before the 31st day of May, 2008; and It begins refining not later than the 31st day of March, 2012.</p>
Two new clauses in sub-section (2) of section 80C has been inserted and according to which the following investments made by the assessee, during the previous year, shall be eligible for deduction under section 80C within the overall ceiling of rupees one lakh:- (i) five year time deposit in an account under Post Office Time Deposit Rules, 1981; and (ii) deposit in an account under the Senior Citizens Savings Scheme Rules, 2004.	This has been done as a welfare measure with a view to encourage small savings increasing the scope of eligible saving instruments.
An additional deduction of up to fifteen thousand rupees has been allowed u/s 80D to an assessee, being an individual, on any payment made to effect or keep in force insurance on the health of his parent or parents. The existing condition of 'dependent' with respect to parents has been dispensed with. This deduction is in addition to the existing deduction available to the individual assessee on medical insurance for himself, his spouse and dependent children. Further, if either of the individual assessee's parents, who has been medically insured, is a senior citizen, the deduction would be allowed up to twenty thousand rupees.	Section 80D of the Income-tax Act provides for a deduction to an assessee, being an individual or a Hindu undivided family, for making a payment to effect or keep in force a medical insurance. As a welfare measure and since health insurance cover for the elderly comes at a relatively higher price, to encourage individual assesseees to supplement the efforts of their parents in getting themselves medically insured, these provisions have been inserted.
A new sub-section (11C) has been inserted in the section 80-IB, providing tax benefit with respect to	To promote Socio-economic development, with a view to encouraging investment in hospitals in non-metro

<p>the profit derived from the business of operating and maintaining a hospital, which is constructed and has started or start functioning at any time during the period beginning on the 1st day of April, 2008 and ending on the 31st day of March, 2013 for a period of five consecutive assessment years, beginning from the initial assessment year located anywhere in India, other than the specified excluded area comprising the urban agglomerations on the basis of the 2001 census.</p>	<p>cities, the benefit of deduction has been extended to hospitals located in certain areas.</p>
<p>The scope of tax benefits available under section 80-ID has been extended to new two-star, three-star or four-star category hotels located in specified districts having a World Heritage Site. Such hotels are required to be constructed and start functioning at any time during the period beginning on the 1st day of April, 2008 and ending on the 31st day of March, 2013.</p>	<p>With a view to promote tourism and to attract tourists to certain World Heritage Sites in India, the scope of tax benefits available under section 80-ID has been extended.</p>
<p>The following amendments have been made relating to the Fringe benefit tax:</p> <p>(a) Sub-section (2) of section 115WB of the Income-tax Act has been amended providing that any expenditure on or payment through pre-paid electronic meal card shall also be excluded from the hospitality expenditure for calculation of the value of fringe benefit. Such electronic meal card should not be transferable, should be usable only at eating joints or outlets and should fulfil such other conditions, as may be prescribed.</p> <p>(b) The Explanation to clause (E) has been amended to provide that any expenditure incurred or payment made to fulfil any statutory obligation, mitigate occupational hazards, provide first aid facilities in the hospital, dispensary run by the employer, provide crèche facility for the children of the employee, sponsor a sportsman, being an employee or organize sports events for employees shall not be considered as expenditure for employees' welfare for the purpose of calculation of the value of fringe benefits.</p> <p>(c) Clause (K) has been omitted. Hence, any expenditure on or payment made for maintenance of any accommodation in the nature of guest house shall not be included for valuation of fringe benefits.</p> <p>(d) Further, clause (c) and clause (d) of sub-section (1) of section 115WC have been amended so as to</p>	<p>These amendments have been made with a view to rationalize the provisions of Fringe Benefit Tax.</p>

<p>provide that the value of fringe benefits on account of expenditure on festival celebration shall be twenty per cent as against the existing rate of fifty per cent.</p>	
<p>A new section 115WKB has been inserted to provide that where fringe benefit tax (with respect to allotment or transfer of specified security or sweat equity shares) has been paid by the employer and subsequently recovered from the employee, the recovery of fringe benefit tax shall be deemed to be the tax paid by such employee in relation to value of fringe benefits provided to him. The deeming provision shall apply only to the extent to which the amount of recovery relates to the value of the fringe benefits provided to such employee. The new section further seeks to provide that the employee shall not be entitled for any refund or entitled to claim any credit of such deemed payment of tax against tax liability on other income or against any other tax liability.</p>	<p>This new section has been inserted with a view to rationalize the provisions of Fringe Benefit Tax.</p>
<p>The proviso to subsection (2C) Section 142(2A) was amended, so as to also allow the Assessing Officer to extend this period of furnishing of audit report <i>suo-motu</i>. Hence, while the Assessing Officer shall continue to have power to grant extension on an application made in this behalf by the assessee and when there are good and sufficient reasons for such extension, he can also grant such extension on his own.</p>	<p>To rationalize and simplify the administrative and compliance procedures.</p>
<p>Correction of arithmetical mistakes and adjustment of incorrect claim under section 143(1) through Centralised Processing of Returns. [section 143]</p>	<p>Generally, tax administrations across countries adopt a two-stage procedure of assessment as part of risk management strategy. In the first stage, all tax returns are processed to correct arithmetical mistakes, internal inconsistency, tax calculation and verification of tax payment. At this stage, no verification of the income is undertaken. In the second stage, a certain percentage of the tax returns are selected for scrutiny/audit on the basis of the probability of detecting tax evasion. At this stage, the tax administration is concerned with the verification of the income. In India, the scheme of summary assessment being in force since the 1st day of June, 1999 does not contain any provision allowing for prima facie adjustment. The scope of the present scheme is limited only to checking as to whether taxes have been correctly paid on the income returned. Under the existing provisions of section 143(1), there is no provision for correcting arithmetical mistakes or internal inconsistencies. This leads to avoidable revenue loss. With an objective to reduce such revenue loss the section 143 was amended,</p>

<p>(i) Section 148 of the Income-tax Act was amended to provide that the assessing officer may assess or reassess an income which is chargeable to tax and has escaped assessment other than those income involving matters which are the subject matter of any appeal, reference or revision;</p> <p>(ii) Section 151 of the Income-tax Act was amended to provide that the Joint Commissioner, the Commissioner or the Chief Commissioner, as the case may be, being satisfied on the reasons recorded by the assessing officer about fitness of a case for the issue of notice under section 148, need not issue the notice himself.</p>	<p>To make the legislative intent clear that if an income has escaped assessment and which has not been subject matter of an appeal, reference or revision, notice under section 148 can be issued for assessment or reassessment of that income.</p> <p>(ii) Section 151 of the Income-tax Act requires an assessing officer to seek the approval of the Joint Commissioner, in a case,-</p> <ul style="list-style-type: none"> • where no assessment under section 143(3) or section 147 has been made for the relevant assessment year; and • the notice is to be issued after expiry of four years from the end of the relevant assessment year. <p>It has been provided that notice in such a situation shall be issued by the assessing officer only when the Joint Commissioner is satisfied, on the reasons recorded by the assessing officer, that it is a fit case for the issue of such notice. Hon'ble Allahabad High Court in the case of Dr. Shashi Kant Garg Vs. CIT 285 ITR 158 has observed that notice under section 148 in such a situation is to be issued by the Joint Commissioner. The legislative intent, in such a situation, has been very clear. The Joint Commissioner is only required to be satisfied on the reasons recorded by the assessing officer. The amendment seeks to clarify the above legislative intent.</p>
<p>Provision for assessment in the case of annulment of the proceeding under section 153A was made by way of amendment in section 153 A and revival of original assessment proceeding was provided, in case the search assessment is annulled. Further section 153B was amended to provide the time limit for completion of such revived assessment.</p>	<p>Under the Income-tax Act, whenever a search is conducted under section 132 or books of account or other documents or any assets are requisitioned under section 132A, provision of section 153A comes into operation. This section, inter-alia, provides for assessment or reassessment of total income in respect of each assessment year falling within a period of six assessment years immediately preceding the assessment year relevant to the previous year in which search is conducted or books of account, etc are requisitioned. Time limit for completion of such assessment or reassessment is provided in section 153B. At present, there are a number of question relating to revival of proceedings and time limits which remain ambiguous. With the view to providing clarity and reducing the disputes the amendment in section 153A of the income tax Act was made.</p>
<p>In section 193 of the Income-tax Act, in the proviso, the clause (ix) has been inserted providing that no tax shall be deducted from any interest payable on any security issued by a company, where such security is in dematerialised form and is listed on a recognised stock exchange in India in accordance with the</p>	<p>Section 193 of the Income-tax Act provides for deduction of tax at source (TDS) on any income by way of interest on securities payable to a resident. In order to facilitate development of the corporate bond market for improving the availability of finances for infrastructure development, the TDS liability on any</p>

<p>Securities Contracts (Regulation) Act, 1956.</p>	<p>interest payable to a resident on any security issued by a company where such security is in dematerialised form and is listed on a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and any rules made thereunder has been removed.</p>
<p>Section 194C of the Income-tax Act, has been amended providing that any association of persons or body of individuals, whether incorporated or not shall be liable to deduct income-tax at source at the time of credit or payment of such sum to the account of the contractor under sub-section (1) of section 194C.</p>	<p>Sub-section (1) of section 194C of the Income-tax Act provides for deduction of income-tax at source from any sum credited or paid to a resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and the Government, local authorities, statutory corporations, companies, co-operative societies, statutory authorities engaged in providing housing accommodation, registered societies, trusts, universities, firms and those individuals/HUFs who are required to get their accounts audited under section 44AB.</p> <p>A number of Special Purpose Vehicles (SPVs) are being set-up to execute large works contracts. Some of these SPVs are structured as Joint Ventures(JVs)/Consortiums in the nature of an Association of Persons (AOP) or Body of Individuals (BOI). Since the provisions of section 194C currently do not specifically require an AOP or BOI to deduct tax at source, there is scope for leakage of revenue.</p>
<p>An amendment in section 195 of the Income-tax Act, has been made whereby any person responsible for paying to a non-resident shall furnish the information relating to payment of such sum in such form and manner as may be prescribed by the Board.</p>	<p>Sub-section (1) of section 195 requires any person responsible for paying any interest or any other sum chargeable to tax (except dividends and income under the head “salaries”) to a non-resident or to a foreign company, to deduct tax at source at the rates in force.</p> <p>Currently, the person making the remittance is required to furnish an undertaking (in duplicate) addressed to the Assessing Officer accompanied by a certificate from an Accountant in a specified format. This undertaking and certificate is submitted to the Reserve Bank of India or its authorized dealers who in turn are required to forward a copy to the Assessing Officer. The purpose of the undertaking and the certificate is to collect taxes at the stage when the remittance is made as it may not be possible to recover the tax at a later stage from the non-residents. There has been substantial increase in foreign remittances, making the manual handling and tracking of certificates difficult. To monitor and track transactions in a timely manner, it is proposed to introduce e-filing of the information in the certificate and undertaking and therefore the amendment id made.</p>
<p>Section 199 and section 206C has been amended so</p>	<p>The system of allowing credit to the assessee for</p>

<p>that the manner in which credit of TDS/TCS is to be given will be governed by Rules to be framed under section 199 & section 206C(4) i.e. the Board may make such rules as may be necessary for the purpose of giving credit in respect of TDS/TCS or tax paid by employer on perquisite under section 192(1A).</p>	<p>TDS/TCS needs a certain degree of flexibility considering the ongoing technological and business process changes. Providing rigorous conditions regarding the method of giving credit for TDS/TCS in the Act itself, makes the system difficult to restructure and implement according to the changing technological environment. In view of this, the section 199 and section 206C(4) has been amended.</p>
<p>The sub-section (1) of section 201 has been amended to clarify that where a person, including the principal officer of a company who is required to deduct any sum in accordance with the provisions of Income-tax Act does not deduct, or after so deducting fails to pay, or does not pay, the whole or any part of the tax, as required by or under the Income-tax Act, he shall be deemed to an assessee in default under section 201.</p>	<p>Under section 201, a person is deemed to be an assessee in default if there is a failure to deduct tax at source or for failure to deposit the tax deducted at source after such tax has been deducted. The persons covered under the ambit of section 201 are :- (i) person referred to in section 200; (ii) the principal officer and the company of which he is the principal officer in the cases referred to in section 194 [relating to deduction of tax at source on dividends]. Sub-section (1) of section 200 provides that any person deducting any tax at source on payments other than salary shall pay the sum so deducted to the Central Government or as the Board directs within the prescribed time. A view has been expressed that the provisions of sub-section (1) of section 201 do not cover failure to deduct tax at source. Such an interpretation is contrary to the intent of the legislature and hence the provisions are amended accordingly.</p>
<p>Section 254 of the Income-tax Act was amended to provide that, the aggregate of the period originally allowed and the period or periods so extended or allowed shall not, in any case, exceed three hundred and sixty-five days, even if the delay in disposing of the appeal is not attributable to the assessee.</p>	<p>To clarify the legislative intention that the ITAT cannot grant stay either under the original order or under any subsequent order, beyond the period of 365 days in aggregate.</p>
<p>A new section 268A was inserted, so as to provide that, the Board may issue orders, instructions or directions to other income tax authorities, fixing monetary limits for the purpose of regulating filing of appeal or application and also to provide that, where no appeal or application for reference has been filed by an income tax authority pursuant to the above mentioned orders/instructions/directions of the Board, it shall not be lawful for an assessee to contend that the income tax authority has acquiesced in the decision on the disputed issue by not filing an appeal or application for reference in any case.</p>	<p>There is a prescribed dispute resolution mechanism under the Income-tax Act. In this regard, the Central Board of Direct Taxes have issued instructions from time to time directing Departmental Officers to not file an appeal if the tax effect is less than the monetary limit prescribed by it. The Hon'ble Supreme Court in M/s. Berger Paints India Ltd. Vs. CIT, Kolkata, (Civil appeal Nos. 1081 to 1083 of 2004) has held that if the revenue has not challenged the correctness of the law laid down by the High Court and has accepted it in the case of one assessee, then it is not open to the Revenue to challenge the correctness in the case of other assesseees without just cause. Department's appeals are being dismissed by judicial authorities on the consideration that the disputed issue was not agitated</p>

	<p>in the case of the same assessee or in the case of any other assessee. The underlying objective of Board's instruction is to reduce litigation in small cases. With a view to protecting the Revenue's right to file or not to file an appeal the amendment was made. This amendment has effected retrospectively from 1st April, 1999,</p>
<p>Subsection (1B) in section 271 is inserted to provide that, where any amount is added or disallowed in computing the total income or loss of an assessee in any order of assessment or reassessment; and such order contains a direction for initiation of penalty proceedings under sub-section (1), such an order of assessment or reassessment shall be deemed to constitute satisfaction of the assessing officer for initiation of penalty proceedings under sub-section (1). Similar amendment has also been proposed in the Wealth-tax Ac</p>	<p>Sub-section (1) of section 271 of the Income-tax Act empowers the Assessing Officer to levy penalty for certain offences listed in that sub-section. It is a requirement that the Assessing Officer is required to be satisfied before such penalty is levied. There is a considerable variance in the judicial opinion on the issue as to whether the Assessing Officer is required to record his satisfaction before issue of penalty notice under this sub-section. Some judicial authorities have held that such a satisfaction need not be recorded. However, Hon'ble Delhi High Court in the case of CIT Vs. Ram Commercial Enterprises Ltd. (246 ITR 568) has held that such a satisfaction must be recorded by the assessing officer. Given the conflicting judgements on the issue and to make the legislative intent clear, Section 271 was amended to unambiguously provide that no satisfaction is required in writing before initiation of penalty proceeding.</p>
<p>Provision regarding immunity from penalty and prosecution and providing a time limit for assessment relating to abatement of settlement proceedings were introduced.</p> <p><i>[section 153,section273AA & Section 278AB]</i></p>	<p>The Finance Act, 2007 carried out a comprehensive amendment to the scheme of settlement of cases. This scheme provides for abatement of proceedings before the Settlement Commission under various circumstances. In order to deal with the various issues that may arise in the event of abatement of proceedings before the Settlement Commission, the Commissioner of Income tax has been empowered to grant immunity from penalty and prosecution in cases which abate.</p>
<p>A new section 282A in the Income-tax Act was inserted to provide that where any notice or other document is required to be issued, served or given, it shall be deemed to have been authenticated if the name and office of a designated income tax authority is printed, stamped or otherwise written thereon. It is also proposed to provide that for the purpose of this section, a designated income tax authority shall mean any income tax authority authorized by the Board for this purpose.</p>	<p>The demand on the tax administration has been growing on account of increase in the volume of work. The widening and deepening of the tax base has resulted in substantial increase in the number of taxpayers. To cope with the sheer volume of work and render timely service to the taxpayer, the Department has been increasingly using information technology in its major processes and procedures. A case in point is the scheme of 'e-filing of the returns'. There are also other important project like 'refund banker', e-payment of taxes, etc. These schemes are expected to enhance the level of taxpayers' service, which in turn is expected to result in increased voluntary compliance. Centralized processing of returns and</p>

	<p>centralized issuance of notices using information technology is critical to quality taxpayers' service. In order to successfully implement these schemes, it is necessary to dispense with the signature of the officer and to use a common seal. The introduction of such common seal in respect of issue of notices, intimations, etc., would be significant step in minimizing taxpayers interface with the Department. Further, it will considerably reduce the discretion of the individual officer and will result in better accountability and compliance.</p>
<p>A new section 292BB in the Income-tax Act was inserted to provide that where an assessee has appeared in any proceeding or cooperated in any inquiry related to an assessment or reassessment, it shall be deemed that any notice under any provision of this Act has been duly served upon him in time in accordance with the relevant provision of the Act. Further, such assessee shall be precluded from taking any objection in any proceeding or inquiry under this Act .</p> <p>Further, clause (ii) of sub-section (2) of section 143 was amended to provide that the notice under sub-section (2) of section 143 shall be served on the assessee within a period of six months from the end of the financial year in which the return is furnished.</p>	<p>Instances have come to the notice of the department, where notices under sub-section (2) of section 143, though issued by registered post within twelve months from the end of the month in which the return was furnished, have been held 'invalid' on the ground that the notice was actually received by the assessee after the limitation date and there was no 'service' as postulated under the section. This is notwithstanding the fact that the assessee has attended the assessment proceedings in response to the notice served on him. Instances have also come to notice where the orders of the assessing officer is being quashed on the consideration that there is no evidence of issue or service of notice, even though the assessee and his authorized representative have attended the hearing before the Assessing Officer during the assessment proceedings. Further, the design of the limitation period with reference to the end of the month leads to administrative inconvenience in as much as the last day of every month becomes a time barring date. In order to address these issues and to reduce litigation the amendments are made.</p>

C. Other significant measures in the sphere of Direct taxes.

(i) Introduction of Commodities Transaction Tax(CTT)

Chapter VII of the Finance Act, 2008 provides for the levy, collection and recovery of Commodities Transaction Tax (CTT), furnishing of returns, assessment procedure, power of the assessing officer, chargeability of interest, levy of penalty, institution of prosecution and filing of appeals etc. The Central Government has been empowered to make rules for the aforesaid purposes. Securities Transaction Tax (STT) has already been introduced vide Finance Act 2004 on the securities traded in stock exchange, The rationale and objective of introducing the CTT is to make the transaction cost of all derivatives irrespective of the underlying assets equal. Since futures and options in commodities are also derivatives, the transaction cost of trading

in such derivatives should be at par with the transaction cost of trading in other derivatives.

(ii) Rationalization of the provisions of Securities Transaction Tax (STT)

Rate at which STT is levied was rationalised by amending the provisions relating to Securities Transaction Tax (STT). Further the section 88E of Income tax Act was deleted and provision of section 36 was amended to provide that any amount of securities transaction tax/Commodity Transaction Tax paid by the assessee during the year in respect of taxable securities/commodities transactions entered into in the course of business shall be allowed as deduction subject to the condition that such income from taxable securities/commodities transactions is included under the head 'profits and gains of business or profession'.

(iii) Discontinuance of Banking Cash Transaction Tax (BCTT)

A sunset clause was introduced by inserting a new sub-section (3) in section 95 of the Finance Act, 2005, which provides that no BCTT shall be charged in respect of any taxable banking transaction after the 31st day of March, 2009.

Central Board of Excise and Customs

Following important legal and procedural changes have been made in the Indirect tax laws / procedures in the recent past:

Central Excise

(1) Production capacity based levy on Pan Masala and Gutkha:

In order to curb evasion of Excise duty by Pan Masala / Gutkha industry, the government has introduced legal provisions for enabling Production Capacity based excise levy in the Budget 2008. Subsequently, these two products have been notified under this scheme w.e.f. 01.07.2008. Under the new levy, the excise duty is payable based on the production capacity of a factory, which is determined based on number of packing machines installed in a factory and the MRP (Maximum Retail Price) of the product packed in the machine. After introduction of new levy, the revenue collection has increased significantly.

(2) Operationalization of new Large Taxpayer Units:

Two new Large Taxpayer Units have been operationalized at Mumbai and Delhi in April and June 2008 respectively. Presently, LTUs are functioning at Bangalore, Chennai, Mumbai and Delhi.

(3) Collection of information from Third party sources and manufacturers:

In order to develop data base for detecting Central Excise / Service Tax evasion, provisions have been made for collection of following information from third party sources / manufacturers:-

(a) Electricity consumption data to analyse the actual production declared by a manufacturer.

(b) Installed capacity of a unit.

(c) Additional information like PAN, VAT Regn. No., Electricity meter No. from SSI unit.

(d) TDS information from CBDT to find out the correctness of Service Tax payment.

(4) Rationalisation of Area Based Exemption:

In order to minimize the misuse of area based exemption applicable to units in J&K, North-East and Kutch, the exemption scheme has been modified by linking the exemption to the actual value addition made by the units in these areas.

Service Tax

(1) Dispute Resolution Scheme, 2008

The Dispute Resolution Scheme, 2008 was implemented in service tax for compounding of cases pending adjudication as on 01.03.2008, involving, either only penalty / interest or service tax arrears upto Rs. 25,000/- on payment of 50% of tax arrears and 25% of penalty / interest amount. This was a significant taxpayer facilitation scheme providing for quicker resolution of pending disputes. The time limit to opt for the scheme was till 30.9.2008.

(2) Service Tax Return Preparers Scheme

In this year's budget, a provision for implementation of Tax Return Preparer Scheme in Service Tax has been made in the service tax law. Modalities for implementation of this

scheme in line with the similar scheme in Income Tax, are being worked out and it is likely to be implemented in near future.

Customs

(1) Electronic filing and processing of import / export documents in Customs:

Customs department had implemented an Electronic Data Interchange (EDI) system to automate its processes and enable electronic filing of customs declaration for import / export, e-payment of duties to make life easier for taxpayers and officials.

The EDI system helps transfer and processing of voluminous data on import / export filed in computer system to enable expeditious clearance of goods and quick payment of duties. The EDI services are easily accessible to taxpayers at service centres located in Custom Houses. This system eliminates filing of paper documents and manual processing. It also helps taxpayer to track movement of their documents and enhances transparency in the functioning of customs department.

(2) Enhanced internet-based Customs services:

ICEGATE portal provides online documentation (E-filing) services to trading partners such as shipping lines / air carriers, cargo carriers, forwarding and clearing agents, importers and exporters.

ICEGATE – [Indian Customs and Central Excise Electronic Commerce / Electronic Data Interchange (EC/EDI) gateway] is the typical EDI process, which has a Web interface where any taxpayer or his agent or service provider, completes the required documentation, makes duty payment and collects duty payment receipt for taking delivery of goods. It also has the features of single point access to Customs and Central Excise officials and secures transaction by allowing access only to authorized persons.

(3) Risk based Customs Clearance of goods:

Risk Management System (RMS) was introduced in Customs for speedy clearance of cargo. RMS enables selection of high-risk cargo for detailed examination by Customs while facilitating compliant trade by speedier clearance of the goods with green channel facility, waiving the requirement of examination. This scheme benefits trade by ensuring expeditious clearance and reduction of transaction costs. It also enhances accountability by pinning down the officer responsible at each stage of processing, reduced human interface between the Department and trade, increased transparency and certainty in clearance of goods on the basis of focused, consistent, structured and scientific risk analysis. The entire logistics of movement of goods in import / export trade have changed resulting in delivery within hours of filing customs declarations as compared to earlier times when it used to take a number of days. A separate Risk Management Division (RMS) has been created to achieve an optimal balance between providing appropriate levels of facilitation to the trade and industry and ensuring compliance with regulatory provisions.

(4) Accredited Clients Program:

Accredited Clients Program (ACP) was introduced in Customs for speedy clearance of cargo. The objective of the programme is to grant assured facilitation to importers who have demonstrated capacity and willingness to comply with the laws that the Customs department is required to implement. Importers registered by the department as “Accredited Clients” under this Programme form a separate category to which assured facilitation is provided.

Except for a small percentage of consignment selected on a random basis by the RMS, or cases where specific intelligence is available or where specifically observed pattern of non-compliance is required to be addressed, the Accredited Clients are allowed clearance on the basis of self-assessment. In other words, as a matter of course, clearance is allowed on the basis of their declarations, and without examination of goods. Further, this benefit is available to the registered Accredited Clients at all the ports in the country where EDI and the RMS are operational. This measure has brought about drastic reduction in the dwell time of cargo and transaction costs for such importers.

(5) Simplified Customs procedure for movement of goods from port to hinterland:

Transshipment of goods has been made simple by doing away with the requirement of filing separate application and automating the process through EDI System. Imported goods arriving at various sea ports / gateway ports have to be transported to the hinterland Container Freight Stations and Inland Container Depots, where the actual users, manufacturers and industries are situated. As ports were getting congested and movement of containers was taking time, the simplified customs procedure thus enables faster movement of containers through automatic process obviating the need to file separate application, paper documents, automatic movement of information through customs electronic network.

(6) Reduction of dwell time:

Time taken for clearance of imported goods into the country and export of goods out of the country has been reduced. With the introduction of automation, streamlining of customs procedures and adoption of international best practices such as risk assessment based clearance, expeditious clearance for compliant trade, the average time taken for clearance of imported cargo has been reduced from 35-40 hours to 3-4 hours. In case of Accredited Clients, through advance filing, e-payment, the entire customs clearance process can be completed within a few minutes, now. The customs component of the dwell time of imported cargo is only about 11% of the total time taken by various agencies in the import / export cycle.

(7) E-banking:

The e-banking facility is being extended to importers to enable payment of Customs duty through internet, thus aiding in quick clearance of goods. The importer would be apprised online about his duty liability and will accordingly make e-payment online. This would reduce the interface between the department & trade and enhance transparent functioning and expeditious payment of Customs duty and overall reduction of dwell time in clearance of imported goods. The pilot project is under implementation in Delhi and this would be extended to other locations in consultation with banks.

(8) Multi-banking Facility:

More Banks situated close to the ports, Air Cargo Complexes have been added to facilitate payment of duty by importers / exporters by authorizing these banks to collect Customs duty payments. Mumbai Air Cargo, Sea Port & Nhava Sheva port; Delhi-ICD, Air Cargo; Chennai-Air Cargo, Sea Port; Kolkata-seaport; Bangalore Air Cargo have already been extended this facility since June, 2006. This would be further extended to other ports and customs locations. Multi-banking facility encourages trade and industry to use efficient banking services so as to reduce the time taken for payment of duty.

(9) The following are the other measures for simplification of procedure to benefit the trade:

- (a) **Expeditious disposal of goods:** The procedure for disposal of confiscated and uncleared goods was studied in detail by the Task Force headed by the Chief Commissioner of Customs, New Delhi. Under the new simplified procedure, custodian would now be able to dispose of long pending uncleared goods themselves on the basis of time bound clearance from Customs resulting in expeditious disposal of such cargo.
- (b) **E-Auction:** Central Board of Excise and Customs has introduced 'E-Auction' in all Customs formations. Such e-auction not only covers confiscated goods lying with Customs or time-expired warehoused goods but also uncleared / unclaimed cargo lying with the custodians. A centralized e-auction portal for the department is being developed for uniformity and facilitation.
- (c) **Uniform transshipment procedure** for expediting movement of import / export goods within Indian ports has been prescribed.
- (d) **Uniform examination norms, simplified procedure for registration, filing and processing of customs documents in respect of Courier imports** has been implemented.

(10) **Promotion of exports:**

CBEC have joined the Ministry of Commerce in implementing the various export promotion measures to provide export incentives, drawback of duty on the inputs used for exports, Special Economic Zone and other schemes. CBEC is also implementing the various export promotion schemes in order to enable import of goods required for exports with duty concessions, facilitating exports through special procedures.

Drawback

The policy initiatives and procedural simplification measures taken by Drawback Division during 2008-09 are as under:-

(i) **All Industry Rates of Duty Drawback (AIR)**

Drawback Schedule 2008-2009

New duty drawback rates for the year 2008-09 have also been notified after extensive consultations with the various Ministries/ Departments of the Government of India, industry & trade associations and other stake holders. The Schedule came into effect from 1.9.2008.

Like previous years, the drawback rates have been determined on the basis of certain broad parameters including, inter alia, the prevailing prices of inputs, standard input/output norms (SION), share of imports in the total consumption of inputs and the applied rates of duty. The incidence of service tax paid on taxable services which are used as input services in the manufacturing or processing of export goods has also been factored in. The drawback rates have undergone changes in line with the changes in prices of inputs, duties etc. The drawback rates have decreased in most cases. However, in case of a few items such as flax yarn and flax fabric, coffee, tea, wooden artware and optical fibres the drawback rates have been increased.

The Drawback Schedule includes several new items. These include coffee (raw beans), in bulk, coffee (roasted and /or decaffeinated), in bulk, tea, in bulk, tea in consumer

packs including tea bags (sachets), instant coffee, parts/components of harness and saddlery made of leather or non-leather including textiles or synthetic materials, stainless steel jewellery, brass bushes and optical fibre cables.

(ii) Brand rate of Duty Drawback

Brand rate of duty drawback is granted in terms of Rules 6 & 7 of the Drawback Rules, 1995 in cases where the export product does not have any All Industry Rate of drawback or where the All Industry Rate notified is considered by the exporter as inadequate to compensate the Customs & Central Excise duties suffered on inputs used in the manufacture of the export product.

2. For expeditious disposal of brand rate application the facility of Revised Simplified Scheme has been extended to a select category of exporters, namely : (a) all exporters who have an export turnover (physical exports) of Rs. 5 crore in current or preceding financial year and having a good track record of three years in exports; (b) public sector undertakings; (c) Star Export House; (d) manufacturer-exporters registered with Central Excise, who have been exporting during the previous two financial years and have export of Rs. 1 crore or more during the preceding financial year; (e) manufacturer-exporters registered with Central Excise, who have paid central excise duty of Rs. 1 crore or more during the preceding financial year.

3. The essence of the Revised Simplified Scheme is that the drawback rates are to be fixed without pre-verification of the data (which should be duly verified and certified by the applicant and Chartered Accountant/Chartered Engineer/Cost Accountant) and the exporter would be authorized by provisional brand rate letters to claim the drawback rate considered admissible from the concerned Custom House(s). The data submitted would be subject to post-facto checking by the department for its authenticity and the rates fixed are also subject to revision on the basis of such post-facto verification.

4. In the case of other exporters i.e. other than these five categories, the normal procedure for fixation of brand rate will apply. It has been decided that these exporters may be granted All Industry Rate in respect of applications filed under Rule 7 (Special Brand Rate) pending verification and fixation of brand rates.

(iii) Other Facilitation Measure: The manufacturer-exporters registered with Central Excise who have paid excise duty of Rs.1 Crore or more during the preceding financial year are exempted from executing bank guarantee under Advance Authorisation and EPCG Schemes. As a trade facilitation measure it has been decided that besides duty payment from PLA, the duty paid through Cenvat credit account can also be taken into consideration while calculating the total duty paid by an assessee during the preceding year. This measure shall allow a larger number of manufacturer-exporters to avail of this facility of exemption from executing bank guarantee under Advance Authorisation and EPCG Schemes.

International Customs Division

Important achievements in the field of International Customs are as under:

(i) Customs Mutual Administrative Assistance Agreement has been signed with South Africa in February, 2008. India has now Customs Mutual Administrative Assistance Agreements with Israel, Russia, United Kingdom, Hong Kong, Maldives, Uzbekistan, Iran, Egypt, European Union, USA, China, Republic of Korea, Australia, Brazil, South Africa and SAARC. The scope of cooperation under these agreements includes exchange of information

enabling detection of false declarations with regard to value, description and origin of goods, providing information on diversion of goods, authenticity of documents, maintaining surveillance over suspect goods, persons or means of transport.

(ii) India completed its tenure as the Vice Chair of WCO Asia Pacific Region in June, 2008. India continues to be the WCO Finance Committee member.

(iii) Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007 notified last year provide for border enforcement of IPRs at the time of imports.

TRU

I. REVENUE COLLECTION TRENDS (APRIL – SEPT. 2008)

Budget Estimates (2008-09)

(Rs. in crore)

S. No.	Indirect Tax	BE 2008 -09
1.	Customs Duties	118930
2.	Central Excise Duties	136610
3.	Service Tax	64400
	Total	319940

Revenue Collection

S. No.	Indirect Tax	Revenue Collection* (Rs. in crore)		% growth
		2007-08	2008-09	
1.	Customs Duties	48480	57356	18.3%
2.	Central Excise Duties	54654	55923	2.3%
3.	Service Tax	18316	23051	25.9%

Notes:

1. Customs and Central Excise revenue figures for 2007-08 are provisional and based on Telegraphic summary
2. Service tax figures are as per Pr. CCA reports.
3. *Figures for Customs and Central Excise are upto the Month of September while for Service Tax upto the Month of August.

II. POLICY INITIATIVES

As part of the strategy to keep the inflationary pressures in the economy under check, a series of measures were taken Post-budget 2008-09. The major thrust of these initiatives was to augment the domestic availability of essential commodities and other commodities (such as steel) exhibiting a sharp rise in prices. This was sought to be achieved by encouraging imports through reduction in import duties and disincentivising exports by imposing/enhancing export duties. In some cases, this was done to augment the availability

of basic raw materials so that the cost-push effect on the price of final products is mitigated. Since it was equally important to maintain fiscal health, some additional resource mobilization measures were also necessary to neutralize the impact of duty reduction. The important measures undertaken to achieve these objectives are:

1. Edible Oils

- (i) **On 21.03.2008, customs duty was reduced on:**
 - (a) Crude palm oil and crude palmolein from 45% to 20% and RBD palm oil/palmolein from 52.5% to 27.5%;
 - (b) Sunflower oil (crude) from 40% to 20% and on sunflower oil (refined) from 50% to 27.5%;
 - (c) Rapeseed/canola/colza/mustard oil (crude) from 75% to 20% and on Rapeseed/canola/colza/mustard oil (refined) from 75%/45% (under TRQ) to 27.5%

- (ii) **On 01.04.2008, customs duty was further reduced on:**
 - (a) Soya bean oil (crude) from 40% to Nil and on soya bean oil (refined) from 40% to 7.5%;
 - (b) Crude Palm oil (including crude palmolein) from 20% to Nil and on RBD palm oil (including RBD palmolein) from 27.5% to 7.5%;

 - (c) Crude sunflower oil from 20% to nil and on refined sunflower oil from 27.5% to 7.5%;
 - (d) Crude canola/rapeseed/mustard from 20% to nil and on refined canola/rapeseed/mustard from 27.5% to 7.5%;

 - (e) All other miscellaneous edible oils (crude) such as coconut oil, ground nut, linseed, sesame, castor, mahua, kokum, crude palm kernel oil, olive etc. from 85% to Nil;
 - (f) All other miscellaneous edible oils (refined) such as coconut oil, ground nut, linseed, sesame, castor, mahua, kokum, crude palm kernel oil, olive etc. from 85% to 7.5%.

 - (g) partly or wholly hydrogenated vegetable fats and oils commonly known as 'vanaspati', margarine, peanut butter, sal fats and oils (vegetable origin) from 80% to 7.5%;
 - (h) Butter and ghee from 40% to 30%.

In addition, Tariff values for the palm group of oils have been kept frozen at July, 2006 levels and on soyabean oil at August 2006 level.

2. Rice and Maize

(a) Customs duty on semi-milled and wholly milled rice reduced from 70% to Nil on 21.03.2008.

(b) Export duty of Rs 8000 PMT was imposed on Basmati rice on 10.05.2008.

(c) Customs duty on maize reduced from 15% to Nil for a TRQ of 5 lakh MTs per annum on 01.04.2008.

3. Cotton

Raw cotton was fully exempted from customs duty on 08.07.2008.

4. Iron and Steel

Import Duty

(i) On 29.04.2008, customs duty was reduced on:

(a) Iron and non-alloy steel (headings 7203 and 7205 to 7217 of the customs tariff) from 5% to Nil;

(b) Pig iron and spiegeleisen (heading 7201) from 5% to Nil;

(c) Metcoke, zinc and ferro-alloys from 5% to Nil;

(d) TMT bars and structurals from 14% to Nil.

(ii) To provide protection to domestic industry, customs duty has been increased from Nil to 5% on ferro-molybdenum and ferro-vanadium on **31.10.2008**.

Export Duty

With a view to augment their domestic availability and contain inflationary pressures export duty was imposed on steel products on **10.05.2008** as under:

(a) 15% ad valorem on pig iron, sponge iron, iron and steel scrap, granules and powders of pig iron, spiegeleisen, iron or steel pencil ingots, semi finished products and HR coils/sheets;

(b) 10% ad valorem on bars and rods, angles, shapes, sections and wires, and CR coils/sheets, pipes and tubes. This was later on increased to 15% on 13.06.2008;

(c) 5% ad valorem on GP and coated steel products in coil/sheet form.

With the fall in international prices, export duty rates on iron and steel products were reviewed on 13.06.08 and 31.10.08 and now except

Ferrous waste and scrap, remelting scrap ingots of iron or steel, export duty has been removed on all other iron and steel products.

5. Iron Ore

On 13.06.2008, export duty on iron ore (lumps and fines, all sorts) was enhanced to a uniform ad valorem rate of 15%

With the decline in international price of iron ore (fines), their exports became un-remunerative. With a view to improve the export competitiveness and protecting the interest of employees in mining sector, 15% export duty on fines has been replaced with a specific duty of Rs.200 PMT. The rate on iron ore lumps continues to be 15%.

6. Petroleum: On 04.06.2008-

1. Customs duty was reduced on:

- (a) Crude petroleum from 5% to Nil;
- (b) Petrol and diesel from 7.5% to 2.5%.
- (c) Other petroleum products from 10% to 5%

2. Excise duty was reduced on:

- (a) Unbranded motor spirit (MS) from Rs.6.35 to Rs.5.35 per litre.
- (b) Unbranded high speed diesel (HSD) reduced from Rs.2.60 per litre to Rs.1.60 per litre.

3. ATF: Customs duty on Aviation Turbine Fuel reduced from 5% to Nil on 31.10.2008.

7. Cars:

- (a) Central Excise duty on large cars, multi utility vehicles (MUVs) and sports utility vehicles (SUVs) of engine capacity exceeding 1500 cc but not exceeding 1999 cc increased from 24% ad valorem to '24% + Rs.15000'.
- (b) Central Excise duty on large cars, multi utility vehicles (MUVs) and sports utility vehicles (SUVs) of engine capacity exceeding 2000 cc increased from 24% ad valorem to '24% + Rs.20000'.

III. SERVICE TAX

1. Dispute Resolution Scheme:

A dispute resolution scheme for service taxpayers was introduced through Finance Act, 2008 whereunder taxpayers could resolve pending service tax disputes in respect of cases involving,-

- (a) Service tax amount of Rs.25,000 alongwith penalty and interest; and
- (b) Procedural cases involving penalty

by paying 50% of the tax, interest or penalty, as the case may be. This was one time scheme which operated between July, 2008 – September, 2008. A number of petty cases were settled under the scheme.

2. Service Taxpayers Preparers:

In order to assist the service taxpayers to,-

- (i) obtain service tax registration;
- (iii) make payment of service tax in the banks; and
- (iv) fill the service tax returns

a Service Taxpayers Preparers Scheme (STPS) has been initiated whereunder unemployed youth would be given basic training in service tax laws and procedures and will be issued certificates by the Department after evaluating their performance. Such certified Tax Preparers would be authorized to help the service taxpayers in complying with the above requirements.

3. Relief Measures:

(a) Exporters:

Notification No.41/2007-ST dated 6.10.2007 provides exemption from levy of service tax on specified taxable services attributable to exports, by way of refund. This exemption has been extended to two more services, namely, (i) purchase or sale of foreign currency, including money changing and (ii) supply of tangible goods for use w.e.f. 10.05.2008.

(b) Goods Transport Agency (GTA): Exemption has been granted from levy of service tax on goods carriage supplied to GTA under 'Supply of Tangible goods for use' service for use in relation to transport of goods by road w.e.f. 26.06.2008.

DEPARTMENT OF FINANCIAL SERVICES

I. THE PUBLIC SECTOR BANKS

Public Sector Banks (PSBs) account for around 74% of the total banking business in the country. In order to bring the banking industry to global levels, new initiatives are being contemplated to bring substantive changes in the banking sector.

To improve the health of the banking sector in India in general and that of Public Sector Banks in particular and also to bring it at par with the international standards, the Reserve Bank of India has prescribed measures for strengthening of prudential supervision coupled with wide ranging steps undertaken by the Government. Financial performance of the banking sector in general and public sector banks in particular, have improved significantly over the last few years. Government and RBI have taken several reform measures / initiatives to strengthen the banking system in India in general and the public sector banks in particular.

1.1 Legislative Reforms in the Banking Sector

Legislation on Payment and Settlement Systems

The Payment and Settlement Systems Act 2007 was passed in the Parliament in December 2007 to provide for a legal basis to recognize clearing houses, give legal sanction to netting of payments with receipts, accord finality of settlement, give recognition to service providers and participants, facilitate electronic mode of payments and give explicit powers of supervision over securities clearing and settlement.

Other Legislations

Amendment to State Bank of India (Subsidiaries Banks) Act, 1959 – In order to remove the long standing investor grievances and also with a view to comply with certain guidelines issued by SEBI besides enabling subsidiaries of SBI to attract a large number of small individual investors, SBI (Subsidiary Banks Laws) Amendment Bill, 2006 was introduced in the Lok Sabha on 26.08.2006. The Bill was passed by both the Houses of Parliament and has been assented to by the President.

In January 2007, the **Banking Regulation Act, 1949** was amended to give greater operational flexibility in the conduct of monetary policy.

In June, 2007, the **State Bank of India Act, 1955** was amended to acquire shareholding of the RBI in the State Bank of India by the Central Government. Accordingly, the Government has, on 29th June, 2007, acquired the entire RBI shareholding of 31,43,39,200 equity shares in SBI, with face value of Rs. 10/- each @ Rs. 1130.35 per share, at a total amount of Rs. 35,531,33,14,720/-.

The Banking Regulation (Amendment) Bill to amend section 12(2) to remove the restriction on voting rights, the **State Bank of India Amendment Bill** to amend certain provisions of the SBI Act, 1955 to access the capital market for raising funds and for smooth functioning and better control and the **Micro Financial Sector (Development and Regulation) Bill** for promotion, growth, development and regulation of Micro Finance Sector in rural and urban areas, are at various stages of obtaining Parliamentary approval.

1.2 Measures to strengthen capital of banks

With a view to providing a wider choice of instruments to Indian banks for raising Tier I and Upper Tier II capital, banks were allowed in October 2007 to issue preference shares in Indian Rupees, subject to existing legal provisions through issuance of perpetual non-cumulative preference shares (PNCPS) as Tier I capital. The perpetual cumulative preference shares (PCPS); redeemable non-cumulative preference shares (RNCPS) and redeemable cumulative preference shares (RCPS) were allowed as Upper Tier II capital.

The above instruments would strengthen the balance sheet of banks besides providing them with flexibility to raise capital at a competitive cost, facilitate adoption of Basel II recommendations on Capital requirement and help banks meet their capital requirement for future growth. The Government has made use of these instruments to restructure the equity capital of Central Bank of India, Indian Bank, Punjab and Sind Bank and UCO Bank to enable them to raise additional equity capital at a reasonable premium.

1.3 Capital Requirements of Banks in India

RBI has decided that foreign banks operating in India and Indian banks having presence outside India are to migrate to the standardized approach for credit risk and the basic indicator approach for operational risk under Basel II with effect from March 31, 2008. All other scheduled commercial banks are encouraged to migrate to these approaches under Basel II in alignment with them but in any case not later than March 31, 2009. The Steering Committee of banks will continue to interact with banks and the Reserve Bank, and guide the smooth implementation of Basel II

Banks are required to maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9 percent on an ongoing basis. The Indian public sector banks are adequately capitalised. As on 31.03.2008, the Capital to Risk Weighted Assets Ratio (CRAR) of the public sector banks was in the range of 10%-13.85% against the minimum regulatory requirement of 9%. The average CRAR of these banks stood at 12.3% as on 31.03.2008. The Government is considering recapitalisation of some public sector banks with CRAR below 12% to reach a CRAR of 12% on their projected risk weighted assets.

1.4 Consolidation of Banks

As a part of the new initiative, the PSBs are seriously evaluating consolidation as one of the strategies to increase competitiveness and add value. Indian banking sector is no stranger to mergers and acquisitions. Since 1961 till date, there have been as many as 79 bank amalgamations in the Indian banking system, of which 46 amalgamations took place before nationalisation of banks in 1969 while the remaining 33 occurred in the post-nationalisation era. Of the 33 mergers, in 25 cases, the private sector banks were merged with a public sector bank while in 7 cases both the banks were private sector banks and in 1 case both the banks were public sector banks (SBI and State Bank of Saurashtra).

The current policy of the Government on consolidation public sector banks leaves the initiative for consolidation to come from the management of the banks themselves with Govt. playing a supportive role as the common shareholder. Government / RBI have not issued any directive on consolidation among the public sector banks, including the SBI group. The Boards of Banks thus have to take a decision in this regard based on the synergy levels of merging/consolidating entities. While supporting any merger proposal, Government will keep in view the interests of the stakeholders and employees of merging banks.

1.5 The Impact of Reforms in the Financial Sector

Financial sector reforms have had major impact on the overall efficiency and stability of the banking system in India. A select few, which are critical, are as follows:

• **Capital:** The average CRAR of all banks increased from 9.2 per cent as on March 31, 1994 to 12.5 per cent as on March 31, 2008. With the global range of CRAR being 10.2 per cent - 13.2 per cent, the capital adequacy of Indian banks is comparable to those at international level.

• **Asset Quality:** While the gross NPAs, as a proportion of gross advances, has been declining steadily and distinctly over the years since RBI introduced the objective criteria for identification of NPAs in 1992-93, the level of gross NPAs in absolute terms has also decreased over the recent past. By utilizing the various channels of recovery provided in the existing mechanism, the level of gross NPAs of the banks have reduced from Rs. 64,812 crore on 31.03.2004 to Rs. 56,668 crore as on 31.03.2008, despite increase in gross advances of the banks from Rs. 9,02,026 crore to Rs. 25,07,885 crore during this period. In percentage terms the gross NPAs of the banks have decreased from 14.7% as on 31.03.1998 to 7.2% as on 31.03.2004 and 2.26% as on 31.03.2008. During the same period, the percentage of Net NPAs to Net Advances declined from 7.3 per cent to 1.1 per cent.

• **Profitability:** The reform measures have also resulted in an improvement in the profitability of banks. The Return on Assets (RoA) of all banks rose from 0.4 % in the year 1991-92 to 1.0% in 2007-08. Considering that globally the RoA has been in the range 0.9 to 1.5 per cent for 2004, Indian banks are well placed.

• **Productivity:** The banking sector reforms also emphasised the need to review the manpower resources and rationalize the requirements by drawing a realistic plan so as to decrease the operating cost and improve the profitability. Various initiatives have been taken by the banks, including the Voluntary Retirement Scheme. In 1998-99, the Business per Employee for Public Sector Banks was Rs. 95 lakh; this has increased to Rs. 188 lakh in 2002 and Rs. 496 lakh in 2007.

III. AGRICULTURE CREDIT

A target was set in 2004-05 to double agricultural credit in three years. This goal was achieved in two years. Against the target of Rs. 2,25,000 crore for 2007-08, the total credit flow to agriculture by Public & Private Sector Commercial Banks (CBs), Cooperative Banks and Regional Rural Banks (RRBs) was of the order of Rs.2,43,570 crore exceeding the annual target by Rs. 18,570 crore. As against the farm credit target of Rs. 2,80,000 crore for 2008-09, an amount of Rs. 98,398 crore has been disbursed upto September 30, 2008. The target and achievement of agricultural credit flow during last five years is given below:

(Rs. in crore)

Year	Target	Achievement
2004-05	1,05,000	1,25,309
2005-06	1,41,000	1,80,486
2006-07	1,75,000	2,29,400
2007-08	2,25,000	*2,43,570
2008-09	2,80,000	**98,398

* Provisional figures upto March, 2008

** Provisional figures upto September, 2008

3.1 Revitalisation of the Short Term Cooperative Credit Structure (STCCS)

Concerned with the need to strengthen the rural cooperative credit institutions, the GOI constituted a Task Force under the chairmanship of Prof. A Vaidyanathan to recommend, inter alia, (i) an implementable action plan for reviving the rural cooperative credit institutions and (ii) to suggest an appropriate regulatory framework and the amendments necessary for the purpose, in the relevant laws. Accordingly, in consultation with the states, a revival package for the Short Term Cooperative Credit Structure has been drawn with a total outlay of Rs.13,596 crore to be shared by Govt. of India, State Govts. and the CCS. The assistance is available for (a) wiping out accumulated losses, (b) covering invoked but unpaid guarantees given by State Governments, (c) increasing the capital to a minimum level of 7% and (d) technical assistance (including cost of special audit, training,

computerization etc). So far, 25 states have executed the MOU with NABARD and Govt. of India for implementing the package for which Rs. 4,970.37 crore has been released to NABARD.

3.2 Revitalisation of the Long Term Cooperative Credit Structure

The Central Government and the State Government have reached a broad understanding on the content of the package to implement the Prof. Vaidyanathan Committee's report on reviving the long-term cooperative credit structure (LTCCS). The package is being finalised after factoring in the impact of the Agricultural Debt Waiver and Debt Relief Scheme 2008. The cost of the package is estimated at Rs. 3,070 crore, of which the Central Government's share will be Rs. 2,206 crore.

3.3 Interest Rate Subvention for short term crop loans

The Scheme of Interest Subvention on crop loans, introduced in 2006-07, has been continued in 2008-09 with the modification that the interest subvention on crop loans up to Rs. 3 lakh per farmer, disbursed out of own sources of banks, will be 3% instead of 2% earlier. Additionally, refinance at concessional rates of interest from NABARD is available to Cooperative Banks and RRBs. This subvention is available to the Banks on the condition that they make available short-term credit at the ground level at 7% per annum.

3.4 Self Help Groups (SHG) Bank Linkage Programme

The SHG -Bank Linkage Programme has emerged as the major micro finance programme in the country. Upto 30.09.2008, 35,12,421 SHGs have been provided credit by the Banking system aggregating Rs.23,049.05 crore. The focus under the SHG bank linkage programme is largely on those rural poor who have no sustainable access to the formal banking system. The target-group, therefore, broadly comprises small and marginal farmers, agricultural and non-agricultural labourers, artisans and craftsman and other poor engaged in small businesses like vending, hawking etc.

3.5 Kisan Credit Cards (KCC):

The KCC Scheme introduced in August 1998, has since stabilised, with major share of crop loans being routed through it. KCC limit can cover the crop loan, marketing credit limit, and consumption loan and investment credit. As on 31.08.2008, a cumulative total of

approx 7,57,10,155 Kisan Credit Cards have been issued by Commercial Banks, Coop. Banks and RRBs with a sanctioned amount of Rs. 2,84,312 crore.

3.6 Financial Inclusion

To bring the 'financially excluded' population within the formal financial system, many policy initiatives have been taken by the Government/RBI. These include making available a basic banking 'no frills' account either with 'nil' or very low minimum balances, issuing of General Credit Cards to eligible beneficiaries without insistence on security, purpose or end use of credit, introduction of KCCs, allowing banks to utilise the services of NGOs, SHGs, Micro Finance Institutions and other Civil Society Organisation as intermediaries in providing financial services, credit linking of SHGs, establishing Micro-Finance Development and Equity Fund of Rs.200 crore for support to MFIs and enactment of 'the Micro Financial Sector (Development and Regulation) Bill, 2007 to develop and regulate the MFIs and constitution of Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) to strengthen institutional and technological infrastructure for greater financial inclusion.

Based on the recommendations of the Committee on Financial Inclusion, headed by Shri C. Rangarajan, the Government has set up the "Financial Inclusion Fund (FIF)" of Rs. 500 crore for meeting the cost of developmental and promotional interventions for ensuring financial inclusion. A "Financial Inclusion Technology Fund (FITF)," of Rs. 500 crore has also been set up to meet the cost of technology adoption. Banks have been advised to add at least 250 rural household accounts every year at each of their rural and semi-urban branches.

3.7 Agricultural Debt Waiver & Debt Relief Scheme, 2008:

In the Union Budget Speech 2008-09, an Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) for farmers was announced. The Scheme covers all direct agricultural loans disbursed by Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Cooperative Banks (including UCBs) and Local Area Banks upto 31st March, 2007, overdue as on 31st December, 2007 and that remained unpaid until 29.02.2008. The Scheme provided for complete waiver of overdue loans of small and marginal farmers and a One Time Settlement Scheme for other farmers involving a rebate of 25% against payment of the balance amount of 75%. The Guidelines for the Scheme were issued to all concerned and the Scheme was implemented by 30.06.2008. As per provisional figures, the Scheme is

estimated to have covered 3,01,06,236 small and marginal farmers and 67,71,582 other farmers with an overall benefit of Rs. 65,318.33 crore.

With a view to ensuring adequate financing of agricultural operations by the Banks, the Reserve Bank of India has provided a temporary liquidity support to Scheduled Commercial Banks and NABARD (for Cooperative Banks and Regional Rural Banks) with effect from 15th October, 2008 to the extent of Rs. 25,000 crore against the first instalment of their dues under ADWDRS.

IV. SMALL & MEDIUM ENTERPRISES (SME) CREDIT

Small & Medium Enterprises Sector contributes about 40% of total manufacturing and 34% of total exports and is crucial to India's economic growth, employment generation and entrepreneurial development. A "Policy Package on Stepping up credit to SME sector" was announced in the Parliament on August 10, 2005 which inter-alia included fixing self targets for funding Small and Medium Enterprises (SMEs) to achieve a minimum 20% year on year growth in credit to SMEs. The objective is to double the flow of credit to the SME sector by 2009-10, i.e. within a period of 5 years. The progress of SME lending by PSBs for the year ending March, 2008 shows a growth of 34.33% over March 2007. Year on year growth in Sept. 2008 over Sept. 2007 has been 24.38 %. MSME Act, 2006 has also been enacted by the Government to give more strength to the SME Sector.

Credit flow to SME sector extended by the Public Sector Banks over the past two years has been as follows:

(Rs. in crores)

As at the end of	Credit to SME Sector
March, 2007	181490
March, 2008	243796
As at the end of	Credit to SME Sector
Sept., 2007	213119
Sept., 2008	265083

4.1 SME Refinance and Risk Capital Funds

During the Budget Announcement 2008-09, two funds viz. SME (Refinance) Fund and SME (Risk Capital) Fund under SIDBI have also been announced. So far a sum of Rs.1600 crore for SME (Refinance) Fund and Rs.1000 crore for SME (Risk Capital) Fund has been allocated by RBI. A further sum of Rs. 2000 crore has been recently allocated to SIDBI by RBI.

4.2 Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE)

CGTMSE earlier provided guarantee covers to the loans extended by its Member Lending Institutions (MLIs) upto 75% of credit facility for loans upto Rs.25 lakhs.

During FY 2008, several changes were made in the Credit Guarantee Scheme, such as, raising the upper limit for guarantee cover to Rs.50 lakh from Rs.25 lakh per borrower, inclusion of 'Service Sector Enterprises' as eligible activity, raising guarantee cover to 80% for loans upto Rs.5 lakh to micro enterprises, women entrepreneurs and units in North Eastern Region etc.. As per the Budget Announcement 2008-09, the CGTMSE has reduced Guarantee Fee and Annual Service Fee from 1.5% and 0.75% respectively to 1.0% and 0.5%, respectively, in respect of all loans upto Rs.5 lakh with effect from March 01, 2008.

CGTMSE has shown a growth of 28% as on 30.09.2008 over 30.09.2007. As on 30.09.2008, the cumulative guarantees were approved by the CGTMSE for 117842 SSI units for a loan amount extended by MLIs of Rs.3474 crore as against 81345 SSI units for Rs.2152 crore upto 30.09.2007.

4.5 Cluster Based Approach

In view of benefits accruing on account of reduction in transaction costs, banks have adopted cluster based approach for financing SME sector. So far SIDBI has covered 203 clusters under the Scheme of Small Enterprises Financial Centres (SEFC) all over the country.

V. EDUCATION LOANS

The Educational Loan Scheme aims at providing financial support from the banking system to deserving/ meritorious students for pursuing higher education in India and abroad. The main emphasis is that every meritorious student, though poor, is provided with an opportunity to pursue education with the financial support from the banking system and that no deserving student is denied the opportunity to pursue higher education for want of financial support. As on 30.9.2008 the amount outstanding on account of Education Loans was Rs.24,268.02 Crore.

5.1 On-line processing of Education Loans

In order to facilitate disbursement of loans for education it was decided that Public Sector Banks should implement an online system for processing education loan applications. On line registration of education loan applications has been introduced with the following features:

- Registration of loan application and immediate automatic reply with reference number for future correspondence;
- Processing of application within stipulated time and conveying sanction in principle to the student to approach the concerned branch.

Many of the Public Sector Banks also organize loan camps on campus at the beginning of academic session to spread awareness about the scheme and to facilitate processing of loan applications.

VI. FINANCIAL INSTITUTIONS:

6.1 India Infrastructure Finance Company Ltd.

India Infrastructure Finance Company Ltd (IIFCL) was set up under the Companies Act 1956 as a wholly owned Government of India company in April 2006. IIFCL finances viable infrastructure projects in sectors like roads, airports, ports, power, urban infrastructure, etc in conformity with the SIFTI. The company's authorised capital is Rs 2000 crore and the present paid-up capital of the company is Rs 1000 crore. The projects financed by IIFCL are spread in 19 states of the country. IIFCL mobilizes resources from the domestic market and from multilateral / bilateral agencies.

Sector-wise loans sanctioned

(Cumulative Position as on 31st October 2008)

	No. of Projects	Project Cost	Loan Sanctioned
Road	55	31,712	5,723
Port	5	3,772	580
Power	23	93,241	9,913
Airport	2	14,716	2,150
Urban Infrastructure	1	70	14
Total	86	143,511	18,380

6.1.1 Financial Performance

The advances of the company at the end of September 2008 were Rs 2734 crore and its net worth increased to Rs 1065.44 crore. The net profit of the company increased from Rs 4.14 crore at the end of September 2007 to Rs 20.31 crore at the end of September 2008, showing a growth of 391%. IIFCL has adopted the prudential norms applicable to banks for asset classification, income recognition and provisioning and has created an Infrastructure Reserve. At the end of September 2008, the Infrastructure Reserve was Rs19.53 crore. IIFCL has no Non-Performing Advances (NPAS) at present.

6.1.2 Setting up of IIFC (UK) Ltd

Following the announcement in the Union Budget 2007-08 by the Hon'ble Finance Minister, IIFC (UK) Ltd has been set up at London. The company was inaugurated by the Hon'ble Finance Minister and commenced operations from 4th April 2008. The company is to borrow upto USD 5 billion from RBI from out of the foreign exchange reserves to on-lend the same to Indian infrastructure companies for meeting their capital expenditure for import

of equipment. The operations of the company are modelled on the lines of SIFTI. The company has so far received 16 proposals (15 in power sector and 1 metro rail) for foreign currency loans of over USD 2 billion. The company has so far sanctioned 2 proposals for USD 170 million, while four more proposals for USD 860 million are under consideration.

6.2 Export-Import Bank Of India (Exim Bank)

Exim Bank of India, set up in 1982 by an Act of Parliament for the purpose of financing, facilitating and promoting foreign trade of India, is the principal Financial Institution in the country for coordinating working of institutions engaged in financing exports and imports. The Government of India wholly owns Exim Bank.

During the financial year 2007-08 the Bank approved loans of Rs. 32804.5 crore as against Rs 26762.2 crore during 2006-07. Disbursements during the year amounted to Rs. 27158.7 crore, as compared to Rs. 22076.0 crore during the previous year. Loan assets increased to Rs 28776.7 crore as on March 31, 2008 from Rs. 22886.2 crore as on March 31, 2007. Profit after tax amounted to Rs. 333.0 crore during FY 2007-08 as against profit after tax of Rs. 299.4 crore during FY 2006-07. Rs. 100.8 crore was transferred as balance of net profit to the Government of India for FY 2007-08 as compared to Rs. 96 crore in the previous year. The Capital to Risk Assets Ratio (CRAR) stood at 15.1 percent as on March 31, 2008. During the year 2008-09, up to September 30, 2008, Exim Bank disbursed loans worth Rs. 16688 crore as against Rs. 11720 crore in the previous year.

Exim Bank lays special emphasis on extension of Lines of Credit (LOC) to overseas entities, national governments, regional financial institutions and commercial banks. At present, there are 103 operational lines of credit covering 92 countries with credit commitments amounting to US\$ 3.37 billion extended by Exim Bank.

Exim Bank also actively supports and facilitates outward investments by Indian companies in their quest for enhanced access to global markets. In addition to providing loans to Indian corporates for overseas investment, Exim Bank also undertakes direct equity participation in Indian ventures abroad to enhance credibility and acceptance of Indian ventures overseas, on select basis.

6.3 SIDBI

SIDBI was set up as a wholly owned subsidiary of IDBI in 1990. After amendment of SIDBI Act in 2000, SIDBI became an independent financial institution. SIDBI is the principal financial institution for financing (direct, indirect and refinance) and promotion and development of Micro, Small and Medium Enterprises (MSME) Sector. The Bank also coordinates the functions of institutions engaged in similar activities. Presently, the Bank provides refinance support through a network of eligible member lending institutions for onward lending to MSMEs and direct assistance is channelized through SIDBI's 74 branch offices. SIDBI also extends financial assistance in the form of loans, grants, equity and quasi-equity to NGOs/Micro Finance Institutions (MFIs) for on-lending to micro enterprises and economically weaker sections of society, enabling them to take up income generating activities on a sustainable basis. SIDBI also provides collateral free loans upto Rs.50 lakh to MSME Sector through its subsidiary - Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). As on 30.9.2008, the cumulative guarantees approved by the CGTMSE were Rs.3464 crore for 117842 SSI units. The aggregate outstanding portfolio of SIDBI stood at Rs.20,226 crore as on 31st March, 2008.

6.4 Irrigation And Water Resources Finance Corporation (IWRFC)

The Irrigation and Water Resources Finance Corporation Limited (IWRFC) has been incorporated under the Companies Act, 1956 and the organizational structure is being put in place.

VII. HOUSING SECTOR:

7.1 National Housing Bank

The National Housing Bank (NHB) has been following a policy of promoting a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system. The NHB also regulates the activities of housing finance companies based on regulatory and supervisory authority derived under the NHB Act. In order to achieve the objective of regulation and promotion of the housing sector the NHB has been promoting a network of dedicated housing finance institutions to adequately serve various regions and different income groups. It has also been endeavouring to augment resources for the sector to make

housing credit more affordable. The total sanctions of NHB during their financial year ending in June 2008 was around Rs. 13,000 crore against which disbursements amounted to Rs. 9000 crore and rural housing disbursement around Rs. 4000 crore.

7.2 Rural Housing Fund

The Rural Housing Fund (RHF) was announced in the Union Budget 2008-09 to enhance refinance operations of the National Housing Bank (NHB) in the rural sector, by tapping resources of scheduled commercial banks to the extent that they fall short of their obligation to lend to priority sector. Reserve Bank of India has allocated an amount of Rs. 1,000 crores under the Fund to NHB.

The RHF is being utilized for extending financial assistance under various refinance schemes for rural housing, both existing and proposed, including refinance under the Golden Jubilee Rural Housing Scheme, top up loan under Indira Awas Yojana, rural housing microfinance, etc. to Primary Lending Institutions like the Regional Rural Banks, Housing Finance Companies, etc. Refinance under the Fund is being extended at a concessional rate of interest of 8% p.a. for a period of 7 years to Primary Lending Institutions. A total of Rs. 250 crores have been disbursed since the Fund was operationalised in September, 2008.

7.3 Reverse Mortgage Loan Scheme

The Reverse Mortgage Loan (RML) was conceived and developed by the Government and introduced through banks and housing finance companies (HFCs) by the NHB. The Scheme was announced by the Hon'ble Union Finance Minister in his Budget Speech of 2007-08. Operational guidelines were notified by NHB after an extensive process of consultation with banks, HFCs and senior citizen organizations. Certain clarifications regarding taxation issues were notified on 30th September, 2008.

The RML enables a Senior Citizen i.e. above the age of 60 years to avail of periodical payments from a lender against the mortgage of his/her house while remaining the owner and occupying the house. The Senior Citizen borrower is not required to service the loan during his/her lifetime. The RML is repaid out of the sale proceeds of the house mortgaged on the death of the borrower or his/her permanently moving out of the house.

NHB has been widely disseminating information on RML and the seminars/workshops/interactions were held at different centres such as Delhi, Mumbai, Hyderabad, Chandigarh; and more are planned. NHB has also launched a Reverse Mortgage Loan Counselling Programme for Senior Citizens at New Delhi, Hyderabad and Chandigarh including one at Head Office of NHB in New Delhi.

VIII. REGIONAL RURAL BANKS

Amalgamation of RRBs: The Government initiated a process for structural consolidation of RRBs by amalgamation of RRBs sponsored by the same bank within a State in September 2005. The amalgamated RRBs will provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity and marketing efforts etc. and will also reap benefits of a large area of operation, enhanced credit exposure limits and undertake diverse banking activities. As a result of the amalgamation, the number of RRBs has been reduced from 196 to 88 as on date.

Branches expansion of RRBs: RRBs have been advised to undertake expansion of branches aggressively, especially to cover the uncovered districts and to open the branches in unserved areas. In pursuance, thereof, RRBs have opened 409 branches and have been advised to open all the 284 branches for which RBI has already issued the license by 31.12.2008.

Recapitalization of RRBs: The Government initiated a process for the recapitalization of the RRBs having negative net worth. It has been estimated that 27 RRBs having negative net worth require recapitalization of Rs 1795.97 crore. Of the 27 RRBs, 21 RRBs (comprising 19 fully and 2 partly) have been recapitalized and the remaining 8 RRBs (comprising 6 non-recapitalized and 2 partly recapitalized) would be recapitalized on the contribution of their share by the State Government concerned.

IX. INSURANCE SECTOR

Post liberalization, the insurance sector has succeeded in raising the levels of insurance penetration (premium as percentage of GDP) from 2.32 in 2000 to 4.7 in 2007. This increase in penetration is significant in the context of the growth of the Indian economy over the last four years. Insurance density (premium per capita in USD) also continued to rise during the period and has moved up from USD 38.4 in 2006 to USD 46.6 in 2007.

The year 2007-08 has seen consolidation of business by the insurance industry. After a 95% growth rate in the first year premium income of the life insurance industry in the year 2006-07, the year 2007-08 has seen a moderate growth rate of 24% over 2006-07. Similarly, in the non-life insurance industry as a result of detariffing, the growth in premium income in the year 2007-08 has been recorded at 12% as compared to 22.33% in 2006-07.

9.1 New Entrants in the Insurance Industry

Since opening up, the number of participants in the industry has gone up from six insurers (including Life Insurance Corporation of India, four public sector general insurers and General Insurance Corporation, as the national re-insurer) in the year 2000 to 37 insurers operating in the life, non-life and re-insurance segments as at the end of 2007-08. (Including two specialized insurers, viz. Export Credit Guarantee Corporation and Agricultural Insurance Company). Two of the non-life insurance companies viz. Star Health and Alliance Insurance Company and Apollo DKV Insurance Company function as standalone health insurance companies.

Of the twenty seven insurance companies that have set up operations in India fifteen life and nine non-life insurance companies are in collaboration with the foreign partners. The two standalone health insurance companies also have set up operations in joint venture with foreign partners.

During 2008-09, registration has been granted to three companies in the life segment and to two companies in the non-life segment.

9.2 Industry Performance Outlook

9.2.1 Life insurance industry

From being the sole provider for life insurance till the financial year 1999-2000, LIC is today competing in the industry with private sector insurers who have commenced operations over the period 2000-08. The life insurance industry (first year premium) has shown a growth of 37% between 1996-97 to 2000-2001 and 43.76% between 2001-02 to 2007-2008. The

first year premium, which is a measure of new business secured, underwritten by the life insurers during 2007-08 was Rs.93,713 crore as compared to Rs.9,707 crore in 2000-01. During 2007-08, the industry has shown a growth of 23.88 per cent. A notable feature of the opening of the life insurance market has been that the size of the life insurance pie itself is expanding.

Post opening up of the sector and particularly in the last two to three years, there has been a marked shift in the new business underwritten through unit linked insurance products (ULIPs). Besides providing insurance cover to the policyholder, ULIPs are different from traditional products in that the risks and rewards underlying the investment component of the premium underwritten by the insurance company are borne entirely by the policyholder. The policyholder determines the investment pattern from out of the various options, as to the proportion of debt, equity and money market instruments indicated by the insurer, based on his risk aptitude.

During the current year there is a decline in underwriting of ULIPs. For LIC there was a decline of 73 % in the first year premium towards ULIPs upto 30-9-2008.

9.2.2 Non-life insurance industry:

Prior to the opening of the sector, general insurance business was carried on by the four general insurance companies in the public sector. As on March 2008, twelve private insurance companies (including two standalone health insurers) have commenced operations in the country post opening up of the sector in the year 2000.

The industry which reported a growth rate of 10.11% during the period 1996-97 to 2000-01, has in the post opening up of the sector reported average annual growth rate of 16.87 per cent over the period 2001-02 to 2007-08. The fastest growing segments are Motor and Health accounting for 45.59 and 17.59 per cent of the premium underwritten in 2007-08.

During 2008-09, up to 30-9-2008, the gross premium underwritten has increased by 12.18% (private companies- 19.66% and public sector companies-7.37) over the corresponding period of previous year (2007-08).

To ensure that Public Sector General Insurance Companies compete better in the market, they are engaged in re-engineering and re-strategizing their business. They have also initiated core insurance in their office that will provide state-of-the-art I.T. solutions.

IRDA has deregulated tariff (except Third Party Motor insurance) w.e.f January 2007.

9.3 Agricultural Insurance

With the incorporation of Agriculture Insurance Company of India Ltd. (AIC), the company has been assigned the responsibility for administering the National Agriculture Insurance Scheme (NAIS) in respect of crop insurance. Up to Rabi 2007-2008, 1155.22. lakh farmers have been covered since the inception of the Scheme and total claims of Rs.11185.90 crore have been disbursed and approximately 16% of the total farm holdings in the country are covered. 25 State/UT governments are participating in the scheme.

Pilot Weather based Crop Insurance Scheme (WBCIS) – AIC introduced a pilot Weather Based Crop Insurance Scheme (WBCIS) in Karnataka during Kharif 2007 season, covering 70 Hoblis and eight rain-fed crops. In this introductory phase, AIC has covered 44,500 farmers, 50,000 hectares of land with a sum assured of Rs.50 crore & premium generation of Rs.7.03 crore.

The WBCIS is operating in a larger scale in Rabi 2007-08 season. States covered in the Pilot during Rabi 2007-08 season are Rajasthan, Bihar, Madhya Pradesh and Chhattisgarh. A total of 6.71 lakh farmers were covered under the scheme in 2007-08 for a sum insured of Rs.1,758 crore. The number of States covered during Kharif 2008 has increased to ten viz. Bihar, Haryana, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab Tamil Nadu and Rajasthan. A total of 1.55 lakhs farmers have been covered in Kharif 2008.

9.4 Insurance Schemes for Weaker Sections

Government has undertaken the implementation of various insurance schemes through Public Sector Insurance Companies at subsidized premiums for the welfare of the weaker sections of the society. The details are as under:

(i) Universal Health Insurance Scheme (UHIS): The scheme launched in 2004 provides for coverage of hospitalization expenses for Below Poverty Line (BPL) family up to a limit of Rs.30,000 on floater basis, personal accident benefit to the earning head of the family for Rs. 25,000 in addition to loss of earnings to the earning head of the family at the rate of Rs. 50 per day for maximum of 15 days for the period of hospitalization.

The premium rate has been revised w.e.f. October 2008. The premium has been reduced from Rs.365/- to Rs. 300/- p.a. for an individual, Rs. 548/- p.a. to Rs.450/- for a family of five and

Rs.730/- p.a. to Rs.600/- for family of 7 members. The scheme is being implemented by the four public sector general insurance companies. In 2007-08, around 6,64,958 persons were covered.

(ii) Janshree Bima Yojana (JBY): The scheme provides life insurance protection to the rural and urban persons living below poverty line and marginally above poverty line. Persons between age 18 years and 59 years and who are the members of the identified 45 occupational groups are eligible to participate in this policy. The scheme provides coverage of Rs.30,000/- on natural death, Rs.75,000/- on death or total permanent disability due to accident and Rs.37,500/- on partial permanent disability. Scholarship as a free add-on benefit is also provided to a maximum of two children of the beneficiary studying between 9th to 12th Standard @ Rs.100/= per month for each child payable half yearly – on 1st July and on 1st January, each year. The premium under the scheme is Rs.200/- per annum, 50% of which is contributed by the beneficiary/ State Government/ nodal agency and the remaining 50% is drawn from the Social Security Fund contributed by Government of India and maintained by LIC. In 2007-08, 1.21 crore lives were covered and 13 lakh scholarships awarded under the scheme.

During the current financial year, the Govt. has targeted to focus on women Self Help Groups, credit linked to banks. LIC has targeted to cover 2.5 lakh such SHGs by 31st March 2009.

(iii) Aam Admi Bima Yojana (AABY): This scheme provides insurance cover to the head of the family or one earning member in the family of rural landless household (RLH).

The scheme provides coverage of Rs.30,000/- on natural death, Rs.75,000/- on death/ disability due to accident and Rs.37,500/- for loss of one eye or limb in an accident. Scholarship as a free add-on benefit is also provided to a maximum of two children of the beneficiary studying between 9th to 12th Standard @ Rs.100/= per month for each child payable half yearly – on 1st July and on 1st January, each year.

The premium charged under the scheme is Rs.200/- per annum, of which 50% is subsidized from the Fund created by Central Government for this purpose and the remaining 50% is contributed by the State Government. 18 State/UT Governments have committed to implement the scheme. Till October 31, 2008, 58.09 lakh lives have been covered under the scheme in seven States/UTs.

9.5 Insurance Laws Amendment Bills

The Cabinet has recently approved the introduction of bills for amendment to the Insurance Act, 1938; the General Insurance Business (Nationalisation) Act, 1972 and the Life Insurance Corporation (Amendment) Bill, 2008.

X. PRIORITY SECTOR LENDING AND LENDING TO WOMEN AND MINORITIES

(i) Priority Sector Lending

All domestic Scheduled Commercial Banks (excluding Regional Rural Banks) are required to lend at least 40 per cent of their Adjusted Net Bank Credit (ANBC) to the priority sector. Within this overall target banks are required to lend 18 per cent of ANBC to agriculture sector and 10 per cent of ANBC to the weaker sections.

(ii) Economic Empowerment of Women

Recognizing the problems being faced by women in India in reaching out to the formal banking system and in order to improve the credit delivery to women, the Public Sector Banks (PSBs) were advised in December, 2000 to implement a 13 Point Action Plan under which the banks were advised, inter-alia, to earmark 5% of their net bank credit (NBC) for lending to women within 3 years viz. by March 2004.

The banks have been making all-out efforts by redefining their policies/long-term plans by taking into account women's credit requirements. The credit to women at 2.36% of net bank credit at the end of March 2001 has increased to 4.95% at the end of March 2007. There has also been progress in regard to establishment of women cells at bank's Head Offices and at some branches, simplification of procedural formalities, orientation of bank officers/staff on gender issues, launching awareness programmes/publicity campaigns about schemes available for women, conducting entrepreneurship development programmes for women, strengthening existing schemes, ensuring sanction of collateral-free loans, involving Non- Government Organisations(NGOs)/ Self Help Groups(SHG) in providing credit facilities to women entrepreneurs, etc.

In various Government of India schemes for poverty alleviation and self employment viz. Swarna Jayanti Shahari Swarozgar Yojana (SJSRY), Swarna Jayanti Gram Swarozgar Yojana(SGSY), Prime Minister's Rozgar Yojana (PMRY), etc. either a certain share has been allocated to women entrepreneurs or preference is being given to them by the PSBs.

Another important channel for reaching bank credit to the women is Self Help Groups (SHGs). About 90% of this credit has gone to women members of SHGs.

(iii) Prime Minister's New 15 Point Programme for the Welfare of Minorities:

In order to ensure improved financial services for the welfare of minorities, Reserve Bank of India(RBI) issued a Consolidated Master Circular dated 5.7.2007 to all the Scheduled Commercial Banks(SCBs) advising them to take care to see that minority communities secure, in a fair and adequate measure, the benefits flowing from various Government sponsored special programmes. This Master Circular also envisages creating a separate cell in each bank to ensure smooth flow of credit to minority communities and also covers the role of the lead bank in the 121 districts identified for purpose of earmarking of targets and location of development projects under the Prime Minister's New 15 Point Programme for the welfare of minorities. Minority Communities have also been included in the category of "Weaker Sections" for availing credit within the Priority Sector advances.

In October, 2007 Public Sector Banks (PSBs) have been directed to step up lending to minorities from the existing level of 9% of total priority sector advances to 15% over the next three years, i.e., up to the end of FY 2009-10.

XI. GLOBAL FINANCIAL CRISIS AND STEPS TAKEN

To mitigate the impact of the Global Financial Crisis on India several steps have taken by RBI/Government and SEBI in the last two months to improve the liquidity and credit delivery. These, inter alia, include reduction of policy rates, reduction in SLR and CRR requirements, creation of special window under SLR to assist mutual funds and NBFCs, relaxation of ECB Policy, increase in the FCNR (B) and NR (E) RA deposit rates, relaxation of capital risk weights and provisioning requirements on standard assets for certain sectors including real estate, allowing special lines of credit to NHB and SIDBI and ensuring dollar liquidity.

Department of Disinvestment

1. In May 2004, Government adopted the National Common Minimum Programme (NCMP), which outlines the policy of the Government with respect to the public sector. The Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. It seeks to devolve full managerial and commercial autonomy to successful, profit-making Central Public Sector Enterprises (CPSEs) operating in a competitive environment. The relevant extracts of NCMP are given hereinunder:

“ The UPA Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. But for this, there is need for selectivity and a strategic focus. The UPA is pledged to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment. Generally profit-making companies will not be privatized.

All privatizations will be considered on a transparent and consultative case-by-case basis. The UPA will retain existing “navratna” companies in the public sector while these companies raise resources from the capital market. While every effort will be made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The UPA will induct private industry to turn around companies that have potential for revival.

The UPA Government believes that privatization should increase competition, not decrease it. It will not support the emergence of any monopoly that only restrict competition. It also believes that there must be a direct link between privatization and social needs – like, for example, the use of privatization revenues for designated social sector schemes. Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors”

2. On 27th January, 2005, Government decided, in principle, to list large, profitable CPSEs on domestic stock exchanges and to selectively sell a minority stake in listed, profitable CPSEs while retaining at least 51% of the shares along with full management control so as not to disturb the public sector character of the companies.

3. Subsequently on 25th November, 2005 Government decided, in principle, to list large, profitable CPSEs on domestic stock exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than the Navratnas).

4. Disinvestment transactions concluded during the years 2004-05 to 2008-09 (till 10.10.2008).

- (a) In October, 2004, 5.25% equity of National Thermal Power Corporation Limited (NTPC) was disinvested through an 'Offer for Sale' in conjunction with Initial Public Offering of equal size by the company. The Government realized Rs.2684.07 crore from this transaction.
- (b) In January 2006, Government disinvested 8% equity of Maruti Udyog Limited in favour of public sector financial institutions and public sector banks. Government realized Rs.1567.6 crore from this transaction.
- (c) In May 2006, Government sold 31,507 shares to employees of MUL and realized of Rs.2.08 crore.
- (d) In May 2007, Government disinvested the entire residual shareholding of 10.27% in MUL in favour of public sector financial institutions, public sector banks and Indian mutual funds and realized Rs.2366.94 crore.
- (e) In October 2007, Government disinvested 5% pre-issue capital of Power Grid Corporation of India Limited in conjunction with Initial Public Offering by way of fresh issue of equity equivalent to 10% of pre issue paid up capital of the company. The Government realized of Rs.994.82 crore.
- (f) The Initial Public Offering in REC consisting of fresh issue of 10% pre-issue equity of the company in conjunction with 'Offer for Sale' of 10%

pre issue capital of the company was completed in March 2008 and Government realized Rs.819.63 crore.

5. Decisions under Review

On 6th July, 2006, the Government decided to keep all disinvestment decisions and proposals on hold, pending further review. Consequently, disinvestment decisions in National Mineral Development Corporation Ltd. (NMDC), Neyveli Lignite Corporation Limited (NLC), and National Aluminium Company Ltd. (NALCO) have not been pursued further. However, the decision in the case of Power Finance Corporation Limited was reviewed and subsequently on 23rd November 2006 the Government approved an IPO by PFC consisting of a fresh issue of equity only, constituting 11.385% of pre-issue capital of PFC. The IPO of PFC was completed in February, 2007.

6. Initial Public Offerings in Power Companies

The Government had approved on 23rd November, 2006, the proposals for fresh issue of 20 per cent of the pre-issue paid-up equity capital in Rural Electrification Corporation Ltd. (REC) and fresh issue not exceeding 24 per cent of the Power Grid Corporation of India Limited's (PGCIL) paid-up equity capital in tranches, first tranche being limited to 10 per cent only through IPO. Subsequently, on 7th December, 2006, the Government approved the proposal of National Hydro-electric Power Corporation Limited (NHPC) for fresh issue not exceeding 24 per cent of the paid-up capital in one or more tranches. Thereafter, on 8th February 2007, the Government decided to make in conjunction an offer for sale of 10 per cent, 5 per cent and 5 per cent of the pre-issue paid up equity of REC, PGCIL and NHPC respectively.

PGCIL

The Initial Public Offering in PGCIL consisting of fresh issue of 10% pre-issue equity of the company in conjunction with 'Offer for Sale' of 5% pre issue capital of the

company was completed in October 2007 and Government realized a sum of Rs.994.82 crore.

REC

The Initial Public Offering in REC consisting of fresh issue of 10% pre-issue equity of the company in conjunction with 'Offer for Sale' of 10% pre issue capital of the company was completed in March 2008 and Government realized a sum of Rs.819.63 crore.

NHPC

The process for Initial Public Offering is being pursued by the company. The IPO, through fresh issue of equity and 'Offer for Sale' of Government equity in conjunction would be completed in due course.

7. Disinvestment in Oil India Limited and RITES Ltd.

Oil India Ltd. (OIL)

Government had, on 30th August 2007, approved an Initial Public Offering of 11% of Oil India Limited's (OIL)'s post-issue paid-up equity capital and a simultaneous disinvestment by the Government equal to 10% of OIL's pre-issue paid-up equity capital in favour of Indian Oil Corporation, Hindustan Petroleum Corporation Ltd. and Bharat Petroleum Corporation Limited in the ratio of 2:1:1 respectively.

The process for Initial Public Offering is being pursued by the company. The IPO, through fresh issue of equity and 'Offer for Sale' of Government equity in conjunction would be launched in due course.

RITES Limited

On 10th January, 2008, a proposal for Initial Public Offering comprising fresh issue of one crore shares and simultaneous disinvestment of 10% of Government's equity in RITES Limited was approved by the Government. The IPO has been

deferred on account of market conditions and in view of the change in requirement of funds by the company.

8. **National Investment Fund**

Government has constituted a "National Investment Fund" (NIF) into which the proceeds from disinvestment of Government equity in CPSEs would be deposited. NIF is being maintained outside the Consolidated Fund of India and is being professionally managed by selected Public Sector Mutual Funds to provide sustained returns without depleting the corpus. Three quarters of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25% of the annual income of NIF will be used to meet the capital investment requirements of profitable and revivable CPSEs.

9. The following steps have been taken by the Department of Disinvestment to operationalise NIF :

- (i) The NIF was constituted by issuance of a Government Resolution on 23rd November, 2005.
- (ii) The following Public Sector Mutual Funds have been appointed as Fund Managers to manage the funds of NIF, under the 'discretionary mode' of the Portfolio Management Scheme.
 - (a) UTI Asset Management Company Limited
 - (b) SBI Funds Management Company (Pvt.) Limited.
 - (c) Jeevan Bima Sahayog Asset Management Company Limited.
- (iii) A part-time advisory Board comprising of three members, namely, Shri S.B. Mathur (former Chairman, LIC), Shri B.D. Narang (former CMD, Oriental Bank of Commerce) and Shri D.H. Pai Panandiker (President, RPG Foundation and Chairman, International Life Sciences Institute, India) has been constituted.

The proceeds from the sale of Government shares amounting to Rs. 1814.45 crore - PGCIL (Rs.994.82 crore) and REC (Rs.819.63 crore) - have been transferred to NIF during the period from October 2007 to March 2008. An income of Rs.84.81 crores for period ending 30th September 2008 has been received for credit to the Consolidated Fund of India.

Department of Expenditure

Austerity instructions issued by Ministry of Finance.

Keeping in view of the constant endeavour of the Government to contain non-plan, non-developmental expenditure, Ministry of Finance has been issuing instructions to avoid wasteful expenditure are issued from time to time to all the Ministries/Departments. Austerity instructions were earlier issued by Ministry of Finance on 17-9-2007. Thereafter, the Ministry of Finance has issued fresh guidelines on Expenditure Management- Economy Measures and Rationalization of Expenditure on 5th June, 2008. Also issued supplementary guidelines related to TA/DA on 1st October, 2008 and guidelines related to LTC on 10th November, 2008. These measures inter-alia, include that no new schemes and programmes, except those that are part of the Budget announcements 2008-09, shall be introduced in the current financial year, mandatory 10% and 5% cut on non-plan expenditure as well as the expenditure on OTA, Domestic & Foreign travel, petrol/lubricants and travel etc., ban on creation of posts, restrictions on purchase of vehicles, restrictions on entertainment/hospitality expenses, review by the administrative Ministries/Departments of release of funds to those Autonomous Institutions having substantial balances unutilized with them etc. Ministries/Departments have been requested to ensure strict compliance of these austerity instructions. All these instructions have been issued with the express intention of checking the non-developmental expenditure.

Action taken to curb unnecessary foreign travel and streamlining expenditure on foreign travel.

Foreign travel of officers of the level of Joint Secretary and below is considered by the respective Ministries/Departments in consultation with their Financial Advisers and the Minister concerned. Cases of delegations abroad led by officers of the level of Additional Secretary and above only are referred by the respective Ministries/Departments, after approval of the concerned administrative Secretary and the Minister concerned, to the Department of Expenditure for consideration of the Screening Committee of Secretaries (comprising Finance Secretary and the Cabinet Secretary).

As regards, Government expenditure on foreign travel of its officers, in order to ensure that foreign travel of Government officials is restricted to the barest minimum and is limited to functional necessity. Following instructions/guidelines have been issued to all the Ministries/Departments for compliance:--

- (i) Guidelines on foreign travel issued vide O.M. No. 23 (2)/2006-E.Coord dated 5th July 2007.
- (ii) Participation in international Exhibitions/fairs issued vide O.M. No. 23 (2)/2006-E.Coord dated 31st July, 2007.
- (iii) Adherence to budget limits under the Foreign Travel Expenses head issued vide O.M. No. 23 (2)/E.Coord-2006 dated 24th September, 2007.

- (iv) Cabinet Secretary's D.O. letter No. 23 (2)/E.Coord/2006 dated 12th June, 2008 on austerity measures.
- (v) Austerity measures on foreign travel issued vide O.M. No. 23 (2)/E.Coord-2006 dated 13th June, 2008.
- (vi) Expenditure management w.r.t. TA/DA issued vide O.M. No. 7(1)/E.Coord/2008 dated 1st October, 2008.

The guidelines issued vide D.O. letter from the Cabinet Secretary dated 12th June, 2008 to all the Secretaries of Government of India inter-alia reiterated the austerity instructions issued by Ministry of Finance on 5th June, 2008, wherefrom amongst other things, the Ministries/Departments have been directed to lay down quarterly or half yearly ceilings under the heads foreign travel and domestic travel (after carrying out the 10% cut) to the Department of Expenditure. Financial Adviser's meeting held on 29th August, 2008, chaired by Secretary (Expenditure), it was emphasized that Financial Adviser's need to strictly enforce the budgetary controls and phasing of expenditure on foreign travel. It was clarified that no exemptions would be granted to any Department from the cut imposed except in cases where there are legal or statutory imperatives, which could be referred to Ministry of Finance.

The Sixth Central Pay Commission set up by the Government of India on 5th October, 2006 submitted its Report relating to structure of emoluments, allowances, conditions of service and retirement benefits of Central Government employees including those belonging to Union Territories, members of All India Services, personnel belonging to Defence Forces, officers and employees of the Indian Audit & Accounts Department and Chairpersons/Members of Regulatory Bodies except RBI on the 24th March, 2008. The recommendations of the Commission have been accepted by the Government as a package subject to certain modifications suggested by Committee of Secretaries (summary of the modifications recommended by the Committee of Secretaries is at Annex-A) and notified vide Resolution No.1/1/2008-IC dated 29th August, 2008. The Commission's recommendations and Government decision thereon with regard to revised scales of pay and dearness allowance have been made effective from 1.1.2006 and the revised allowances, other than dearness allowance, from 1.9.2008.

Summary of the modifications recommended by the Committee of Secretaries

- (1) Modifications recommended by the CoS covering all sections of employees, i.e. civilians as well as Defence Forces:-
- (i) Fitment in pay bands based on multiplication factor of 1.86, instead of 1.74 recommended by the CPC;
 - (ii) Increase in the rate of annual increment from 2.5% to 3%;
 - (iii) Removal of Campus restriction for grant of Transport Allowance;
 - (iv) Increase in Transport Allowance at the lowest level to Rs.600 (from Rs.400 in A-1/A class cities) and Rs.400 (from Rs.300 in other cities);
 - (v) Continuation of Risk Allowance for civilian employees till 31.03.2009 and introduction of Risk Insurance Scheme from 01.04.2009;
 - (vi) Grant of 3 upgradations under Assured Career Progression (ACP) Scheme at 10, 20 and 30 years under the modified scheme recommended by the Commission;
 - (vii) Issues relating to grade pay: (a) Uniform higher grade pays for all middle level officers including those belonging to Indian Administrative Service (IAS)/Foreign Service and Defence Services; (b) The edge presently granted to IAS/Foreign Service officers at middle level to continue in the form of 2 increments in the pay band at the existing three levels; (c) Grade pay to determine seniority of posts only within a cadre's hierarchy and not between various cadres; and
 - (viii) Improvement in the fitment of middle level officers by placement of Colonels/Directors/equivalent levels and Brigadier/ DIG/Conservator of Forests/equivalent levels in the Pay Band-4. Pay Band-4 to be modified to Rs.37400-67000 instead of Rs.39200-67000.
 - (ix) Higher grade pay for All India Services, Group 'A' Services, and Defence Services.

- (2) Modifications specific to Defence Forces employees:-
- (x) Increase in Military Service Pay (MSP) of Personnel Below Officer Rank (PBORs) from Rs.1000 to Rs.2000 pm;
 - (xi) Grant of 3 ACP upgradations after 8, 16 and 24 years of service to PBORs instead of the present two after 10 and 20 years;
 - (xii) Existing weightage of 5 years for Gratuity for PBORs to continue;
 - (xiii) Lower limits of Disability Pension to be doubled from Rs.1550 to Rs.3100. War Disability Pension to be granted at 60%;
 - (xiv) The rates of Special Forces Allowance for Army and Air Force to be equated with Navy's Marine Commando Allowance;
 - (xv) In case of existing Major/Lt. Generals, MSP to be taken into account notionally for fixation of pay on 1.1.06;
 - (xvi) Grant of the scale of Army Commanders (Rs.80000 – fixed) on non-functional basis to those Lt. Generals who are fit for promotion as Army Commanders, but overlooked due to lack of residual service of 2 years;
 - (xvii) Enhancement of grade pay of middle level officers (from Captain to Brigadier) as demanded by the Defence Forces. Since Sixth CPC has established parity between Defence Forces personnel and civilian employees, same grade pay to be extended to the equivalent civilian employees including IAS/ Foreign Service officers also. Placement of Colonels and Brigadiers in the revised Pay Band -4.
- (3) Modifications for Central Para Military Forces (CPMFs), Indian Police Service and Indian Forest Service:-
- (i) Administrative Ministries (MHA and Ministry of Railways) to be allowed to take an administrative view regarding manning of posts of Deputy Inspector General (DIG) and above in CPMFs;
 - (ii) All the posts of Additional DIG upgraded to DIG level by the Pay Commission to continue to be manned by the cadre officers of CPMFs;
 - (iii) A new pay scale (Rs.75500-80000) to be carved out of Pay Band-4 (PB-4) for Directors General of Police and Principal Chief Conservators of Forests. This would ensure that all of them would reach the maximum of Rs.80000 in 2 years, as against 3 years presently. This new pay scale would be applicable for all Higher Administrative Grade+ (HAG+) level posts like Additional Deputy

Comptroller & Auditor General, General Manager, Railways, Members of Central Government Boards like Central Board of Excise and Customs, Central Board of Direct Taxes, Postal Board, etc;

- (iv) Placement of Director level posts and DIG of Police/Conservator of Forests in the revised Pay Band-4; and
 - (v) Eligibility for promotion to Inspector General of Police/Chief Conservator of Forests level to continue to be 18 years as at present. However, Government to restore the eligibility for promotion to Super Time Scale of the IAS to 16 years. (This had been reduced by the Government to 14 years in January 2008.)
- (4) Modifications for the Railway employees:-
- (i) Running Allowance to be taken into account while fixing the pay of those Railway employees who are in receipt of this allowance;
 - (ii) The issue of retention of a separate grade for Master Craftsman in Railways to be remitted to a Fast Track Committee; and
 - (iii) Group 'B' Supervisors in Railways under the 80:20 Scheme to be granted grade pay of Rs.5400 in PB-3, instead of PB-2 recommended by the Commission.
- (5) Modifications recommended for Scientists:-
- (i) Continuation of the existing system of grant of Special Pay of Rs.2000 p.m. to Scientists G on promotion and doubling of the amount to Rs.4000 p.m. in Departments of Space and Atomic Energy and Defence Research & Development Organisation (DRDO);
 - (ii) Continuation of the existing practice of grant of two additional increments to Scientists from Level C to F in Departments of Space and Atomic Energy and DRDO;
 - (iii) Acceptance of the suggestion from the Departments of Space, Atomic Energy and DRDO regarding grant of variable increments to really deserving Scientists at the time of promotion. Details to be worked out in consultation with Ministry of Finance;

- (iv) Implementation of the Performance Related Incentive Scheme in Department of Science & Technology; and
 - (v) Placement of Scientists E & F in PB-4.
- (6) Modifications for Medical Doctors:-
- (i) Reckoning of Dearness Allowance (DA) on Non-Practicing Allowance (NPA) as on 01.01.2006 for fixing the pay of Medical Doctors in revised pay bands; and
 - (ii) Grant of promotions under Dynamic ACP Scheme upto Senior Administrative Grade (Joint Secretary level) to Doctors with 20 years of service.
- (7) Modifications for Group 'B' cadres in the Central Government:-
- (i) Placement of Section Officers in the Central Secretariat Service (CSS)/Central Secretariat Stenographers Service (CSSS)/ Railway Board Secretariat Service (RBSS)/Armed Forces Headquarters Civil Service (AFHQCS)/Indian Foreign Service 'B' and officers of Delhi and Andaman Nicobar Islands Civil Service (DANICS)/ Delhi and Andaman Nicobar Islands Police Service (DANIPS) who were in the pre-revised scale of Rs.8000-13500 in PB-3 on non-functional basis after four years of service in the pre-revised scale of Rs.6500-10500 instead of PB-2 recommended by the Sixth CPC;
 - (ii) Placement of Senior Accounts Officers in Indian Audit and Accounts Department and other Organized Accounts Services in PB-3 instead of PB-2 recommended by the Sixth CPC. Placement of Accounts Officers in PB-2 with grade pay of Rs.5400 instead of grade pay of Rs.4800 recommended by the CPC; and
 - (iii) Grant of grade pay of Rs.5400 in PB-2 to Group 'B' supervisors in Departments of Posts and Revenue etc. on non-functional basis after four years of service in pre-revised scale of Rs.7500-12000 to ensure parity with their administrative counterparts.
- (8) Modifications relating to Sixth CPC's recommendations regarding five Regulatory bodies

- (i) The recommendation of the Sixth CPC regarding the higher pay package of Rs.2.5 lakh and Rs.3 lakh p.m. (without house and car) for Members and Chairpersons of Regulatory Bodies may be accepted. However, the existing incumbents in the specified Regulatory Bodies will be offered an option to retain their present pay and allowances together with car and house or to choose the higher pay package without house and car.
- (9) In addition to the above, the Government has approved the following: -
- (i) The Indian Police Service Pay Rules and the Indian Forest Service Pay Rules will be appropriately modified to provide in each State Cadre one post of Director General of Police as head of the police force and one post of Principal Chief Conservator of Forests as head of the forest service at the apex level of Rs.80,000.
 - (ii) Grant of the Apex Grade of Rs.80000 to Director Generals of Indo-Tibetan Border Police and Sashashtra Seema Bal as recommended by the Sixth Central Pay Commission; and
 - (iii) The Grade Pay attached to the pre-revised pay scales of Rs.14300-22400 and Rs.18400-22400 will be Rs.10000 instead of Rs.11000 proposed in the Cabinet Note and the Grade Pay attached to pre-revised scale of Rs.22400-24500 will be Rs.12000 instead of Rs.13000 proposed in the Cabinet Note.
- (10) Recommendations of Sixth CPC not accepted by the Government
- (i) Liberal 'severance package' for those employees who want to leave service without pension with more than 15, but less than 20 years of service.
 - (ii) Recommendation relating to Holiday Policy that there should only be three closed holidays for Government employees.
 - (iii) Flexi-hours for women employees and flexi-weeks for employees with disabilities.

Financial Implications

The financial implications in 2008-09 on account of the implementation of the recommendations of the Sixth Central Pay Commission as modified by the Cabinet will be around Rs.15700 crore on the Central Budget and Rs.6400 crore on the Railway Budget.

Finance Commission Division

Debt Consolidation and Relief Facility

1. The Debt Consolidation Relief Facility (DCRF), formulated as per recommendations of the Twelfth Finance Commission (TFC), has two components

- (a) a general debt relief comprising consolidation, reschedulement for a fresh term of 20 years and lowering of interest rate to 7.5% in respect of the central loans to States contracted till March 31, 2004 and outstanding on March 31, 2005. This debt relief would be available from the year of enactment of FRBM legislation (RD); and
- (b) a scheme of debt waiver based on the fiscal performance linked to Revenue Deficit (RD) and Fiscal Deficit (FD) of states. Under this scheme, repayment due on consolidated and rescheduled consolidated loans from 2005-06 to 2009-10 are eligible for write off subject to following conditions:
 - (i) Enactment of Fiscal Responsibility Budget Management (FRBM) legislation (required, in any case for Debt Consolidation),
 - (ii) Reduction of RD/maintenance of Revenue Surplus, every year starting from 2004-05, when compared to the average of preceding 3 years (i.e., 2001-02, 2002-03 & 2003-04), which forms the base year 2003-04. In the process, if revenue deficit is eliminated completely by 2008-09, the State gets full benefit of the waiver,
 - (iii) Reduction in RD should be equal to the at least the interest rate relief on account of consolidation, and
 - (iv) Containing FD at the 2004-05 level in succeeding years¹

2. TFC while recommending DCRF suggested contents of the FRBM legislation and has divided them into two parts: core (non-negotiable) and other (recommendatory). The core recommendations, which need to be incorporated in the FRBM legislation of the State before debt reschedulement would be considered by the Ministry of Finance are as under:-

- (i) Eliminating RD by 2008-09;
- (ii) Reducing fiscal deficit to 3% of GSDP (2008-09);
- (iii) Bringing annual reduction targets of revenue and fiscal deficits;
- (iv) Bringing out annual statement giving prospects for the State's economy and related fiscal strategy;
- (v) Bringing out special reports along with the budget giving details of number of employees in government, public sector and aided institutions and related salaries.

¹ With respect to this condition, it has decided that States, which have registered less than 3% fiscal deficit to GSDP ratio in 2004-05 and have become eligible to get the debt waiver due to improvement in revenue balance in a particular year, would be awarded the debt waiver, even if they have exceeded the level of fiscal deficit to GSDP ratio of 2004-05 in that year but still remain within the level of 3% fiscal deficit to GSDP ratio.

3. The quantum of debt write-off is linked to the absolute amount by which RD is reduced in each successive years, during the award period. Separate treatment for Revenue Surplus States and Revenue Deficit States has been recommended.

Revenue Surplus States:

4. The TFC stated that for the States which were in revenue surplus in the base year as calculated above, the instalment of repayment due on the consolidated loans may be written off in each of the years from 2005-06 onwards so long as the revenue surplus of the State does not go below the base year level in absolute terms. If in a year the revenue surplus is less than the base year figure, then write-off is not permitted.

Revenue Deficit States:

5. For revenue deficit States, their fiscal performance will be measured by the absolute amount by which the revenue deficit (RD) is reduced each year compared to the previous year, starting from the base year figure. The ratio of repayments due during 2005-10 to the base year RD will determine the write-off of repayments for reduction of each rupee of RD. The amount of RD reduced multiplied by the above ratio will give the quantum of write-off. This is however, restricted to the repayments due in that particular year. The excess amount gets carried forward to the next year, provided RD continues a downward trend in the next year and is lower than the base year figure. (If RD increases, on the contrary, but still less than the base year figure, then, the write-off shall be determined on the basis of improvement from the minimum revenue deficit figure of the previous year that would have given full relief in the previous year).

6. Write-off would be admissible only when RD is reduced to a level lower than the base year level. In order to provide relief without any time lag in the succeeding year's repayments itself, revised estimates of RD of previous year are taken. Necessary adjustments are made after the Finance Accounts become available.

7. Further, other things remaining the same, a reduction of RD is inherent from 2005-06 onwards as a result of the debt relief due to the lowering of the interest rate recommended by TFC. Reduction in revenue deficit which is at least equal to the interest rate relief shall be treated as an eligibility requirement. Each State will, therefore, be required to achieve in each year of our award period, a reduction in the revenue deficit, which, compared to the base year figure, is cumulatively higher than the cumulative reduction attributable to the interest relief recommended by TFC.

Status

8. 26 out of 28 states, except West Bengal and Sikkim, have enacted FRBM Acts. Debt consolidation, aggregating Rs. 1,12,076 crs, has been completed for 25 States (except J& K). Debt consolidation has provided interest relief to these 25 States to the extent of Rs. 4392 crore, Rs. 3995 crore, Rs. 3903 crore and Rs. 3398 crore in 2005-06, 2006-07, 2007-08 and 2008-09 as against TFC's estimation of Rs. 4,711.45 crore, Rs. 4,375.03 crore, Rs. 3,937.83 crore, and Rs. 3,445.42 crore. Based on the quality of fiscal correction, reduction in RD and level of FD debt write-off, debt waiver has been awarded to 15 States to the extent of Rs. 3,984.35 crore for 2005-06, to 20 States for 2006-07 to the extent of Rs. 4,691.56 crore,

to 18 States for 2007-08 to the extent of Rs. 4,609.55 crore and estimated debt waiver of Rs. 5,536.59 crore to 23 States in 2008-09.

Impact of DCRF

9. There has been considerable improvement in the revenue deficit of States. From combined Revenue Deficit of Rs. 6907 cr in 2005-06, States achieved Revenue Surplus in 2006-07 (Rs. 29323.00 cr). This trend has continued in 2007-08, with a surplus of Rs. 22526 .00 cr (RE), and in 2008-09 with the budgeted revenue surplus of Rs. 29871.00 cr.

10. In so far as the fiscal deficit is concerned, there has been significant reduction in the fiscal deficit. States, as a whole, have over-achieved the target of fiscal deficit reduction to 3% of GDP much ahead of the target year of 2008-09. In 2005-06 (actuals) the FD was not only lower in absolute **terms but was less than** 3% of GDP, i.e., 2.56% of GDP. FD to GSDP ratio declined from 4.26% in 2004-05 to 3.25% in 2005-06; declining to 2.19% in 2006-07 (actuals) and to 3.01 % in 2007-08(RE). It is estimated to be 2.80% in 2008-09 (BE). Thus, FD to GSDP has already approached the target of 3% of GSDP in 2008-09 . The States together have maintained the aggregate fiscal deficit within the overall borrowing ceiling fixed by the Ministry of Finance in the years from 2005-06 to 2007-08.

Plan Finance -I

Introduction : Expenditure Budget 2007-08, Demand No.35 with Ministry of Finance relates to transfers to States and Union Territory Governments including non-plan grants/loans, grants for State plan schemes and relief on account of natural calamities.

2. This Demand includes provision of National Social Assistance Programme (NSAP), NPAG, NEGAP, AIBP.APDRP, JNNURM, ACA for EAP, NCA, BRDP, BRGF, Tsunami Rehabilitation Programme (TRP), ACA for other projects as per details given at Annexure I. Provision has been made for providing grants-in-aid to States as Assistance for Development of Golden Temple. This grant also includes provision for the Schemes for Sub-Mission on Urban Infrastructure & Governance, Urban Infrastructure development for Small and Medium Towns (UIDSSMT), Sub-Mission on Basic Services to Urban poor, Integrated Housing & Slum Development (IHSDP) under the Major Scheme for Jawaharlal Nehru National Urban Renewal Mission and Tsunami Rehabilitation Programme (TRP) have been made. The provisions for two new schemes, Brihan Mumbai Storm Water Drain Project (BRMISTOWA), Mumbai and Commonwealth Youth Games, Pune have also been made in the BE of 2007-08.

3. Demand No.35 further provides for grants payable to States under Article 275(1) of the Constitution of India on the basis of the recommendations of the Twelfth Finance Commission, Block grants for State Plan Schemes, short term Ways and Means Advances to States and assistance from National Calamity Contingency Fund (NCCF).

4. Brief on some important State Sector Plan Schemes under PF-I Division is enclosed.

A. Backward Regions Grant Fund (BRGF)

Union Finance Minister, in his Budget Speech for 2006-07, had announced the establishment of Backward Regions Grant Fund (BRGF) for which an allocation of Rs. 5000 crore had been made for the year 2006-07. This scheme, however, could not be approved during 2005-06.

- The Backward Regions Grant Fund has been approved during the year 2006-07 replacing the Rashtriya Sam Vikas Yojana.
- The decisions taken with regard to the BRGF are as under:

- (i) The BRGF would consist of two components, namely, (a) Districts Component covering 250 districts, and (b) Special Plans for Bihar and the KBK districts of Orissa.
 - (ii) The implementing Ministry for the BRGF districts would be the Ministry of Panchayati Raj. This Ministry would lay down the guidelines for implementation of the BRGF in consultation with the Planning Commission. The Planning Commission would play the role of adviser and monitor the progress of the scheme.
 - (iii) In the Eleventh Plan, a provision of Rs.1000 crore per annum would be made for the Special Plan for Bihar. A total of Rs. 250 crore will be provided for the KBK districts, including funds under the BRGF district norms and the KBK Special Plan.
 - (iv) Districts where RSVY is continuing will receive funds as per RSVY norms till an amount of Rs.45 crore (plus the existing monitoring fee) is released to each district after which these districts will shift to the BRGF's standard mode of funding i.e. a fixed amount of Rs.10 crore per district per year and the remaining amount on equal weightage for area and population.
 - (v) An additional amount of Rs. 250 crore per year would be provided for capacity building, preparation of district / block / village plans, training / acquisition of technical inputs / monitoring.
 - (vi) Funds under the BRGF would be allocated as Additional Central Assistance on 100% grant basis to be met out of Central assistance for State Plans as part of the Annual Plans of the States.
 - (vii) Assistance to the new programme would be made available during 2006-07 and during the Eleventh Plan period.
 - (viii) Budget provision for the Districts Component of the BRGF would be made in the Demand for Grants of the Ministry of Panchayati Raj. The funds for the Special Plans for Bihar and the KBK districts of Orissa would continue to be provided in the Demands of the Ministry of Finance.
- The allocation under Demand No. 35 which rests with Ministry of Finance and the releases made by MoF for the last 3 years in respect of Special plan for Bihar and KBK District of Orissa, are as under:

(Rs. in crore)

Year	Allocation	Release
2006-07	1250	1250
2007-08	1130	1130
2008-09	1130	130 (as on 19.11.08)

Note- Allocation for Special plan for Bihar is Rs. 1000 cr. annually and for KBK district of Orissa Rs. 250 cr. in 2006-07 and Rs. 130cr. in 2007-08 & 2008-09 each.

B. National Social Assistance Programme(NSAP)

- The National Social Assistance Programme (NSAP) which came into effect from August 1995 comprises of National Old Age Pension Scheme (NOAPS), Annapurna Scheme and the National Family Benefit Scheme (NFBS) at present.
- These programmes were meant for providing social assistance benefit to the aged destitutes and the BPL households in the case of death of the primary breadwinner and provide for pensions, food security and family benefit @ 10,000 in case of death of prime family earner.
- NSAP was earlier operated as a Centrally Sponsored Scheme by the M/o Rural Development until 2002-03 when it was transferred to the State Sector. With this change, the funds for the operation of these schemes are now being released as Additional Central Assistance (ACA) to the States by the Ministry of Finance. The ACA to be provided to the States/UTs for the NSAP and Annapurna Scheme is decided by the Planning Commission, while the State-wise allocation of ACA is made by the Ministry of Rural Development and Planning Commission.
- The National Old Age Pension Scheme (NOAPS) under NSAP was renamed as the Indira Gandhi National Old Age Pension Scheme which came into effect on 19.11.2007. The eligibility criteria under the new scheme has been revised to include all persons of the age of 65 years or higher and belonging to a household Below Poverty Line (BPL).

Financial Progress

(Rs. in lakhs)

Year	Budget Provision	Total Releases
2002-03	68000.00	65709.86
2003-04	67987.00	60226.79
2004-05	118987.00	103201.74
2005-06	119000.00	118971.00
2006-07	248097.00	248961.44
2007-08	289146.00	285137.00
2008-09 (as on 19.11.08)	344224.00	258165.00

Physical Progress as reported by Ministry of Rural Development

Year	Number of Beneficiaries covered		
	NOAPS	NFBS	Annapurna
2002-03	7471509	85209	796682
2003-04	6534000	209456	958669
2004-05	8079386	261981	850768
2005-06	8002561	272828	857079
2006-07#	8645371	171232	750319
2007-08#	14353816	258827	894115

No. of beneficiaries are still not reported from some of the States.

C. Long term Reconstructions of Damaged Infrastructure due to Natural Calamities in 2005.

- The existing schemes of CRF/NCCF do not provide for assistance for long term rehabilitation and reconstruction of damaged infrastructure.
- The Hon'ble Finance Minister in his budget speech 2006-07 had assured the House that the Govt. will provide the fund for rehabilitation and reconstruction of the damaged infrastructure for the States affected by natural calamities during the year 2005.
- The Cabinet has so far approved the proposal for long term reconstruction plan affected by natural calamities of 2005 in respect of 12 States and one UT namely J&K, Andhra Pradesh, Gujarat, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh, Arunachal Pradesh, Sikkim and Puducherry.
- The Financial assistance would flow to these States under the State Plan as ACA in the ratio of 70% loan & 30% grant in case of General Category States and 10% loan and 90% grant for Special Category States, and the loan portion of the Central Assistance have to be raised by the States.
- Ministry of Finance during 2006-07 and 2007-08, had released the net grant component of Rs.296.58 crore (after adjusting excess release from NCCF amounting to Rs.275.71 crore) to the State of J&K.
- The reconstruction plan and also the net grant component payable after adjusting the excess release from NCCF in r/o 11 States and 1 UT are as under:-

(Rs in crore)

States	Reconstruction Plan recommended by HLC	Grant component	Loan component	Excess releases from NCCF	Net Grant Payable from Special Plan Assistance (3-5)	1 st instalment i.e. 50% of Net Grant Component
1.	2.	3.	4.	5.	6.	
Andhra Pradesh	582.06	174.61	407.45	27.71	146.90	73.45
Gujarat	1307.90	392.37	915.53	195.69	196.68	98.34
Himachal Pradesh	129.94	116.95	12.99	25.14	91.81	45.905
Karnataka	769.09	230.73	538.36	158.15	72.58	36.29
Kerala	58.44	17.53	40.91	12.72	4.81	2.405
Madhya Pradesh	63.41	19.02	44.39	Nil	19.02	9.51
Tamil Nadu	1077.72	323.31	754.41	191.65	131.66	65.83
Uttar Pradesh	335.10	100.53	234.57	Nil	100.53	50.265
Arunachal Pradesh	399.20	359.28	39.92	-	359.28	179.64
Sikkim	83.59	75.23	8.36	-	75.23	37.615
Puducherry #	32.12	9.64	22.48	-	9.64	-
Maharashtra*	999.60	299.88	699.72	362.23	-62.35*	-
Total	5838.17	2119.08	3719.09	973.29	1208.14	599.25

* The amount recoverable from the State of Maharashtra was proposed to be adjusted from the future releases of NCCF).

ACA for Puducherry would be released by MHA.

Note: (1) The States will raise the loan component on their own subject to approval of Gol under Article 293(3) of the Constitution.

(2) regarding the only left over State i.e. Nagaland, no information is available either from Planning Commission or IMC (NDMA).

- As per approval, the net grant of ACA would be released to these States in two equal instalments. Necessary funds to release first instalment i.e. 50% of the net grant payable to the States was sought in the first supplementary. Accordingly this Ministry has released the first instalment amounting to Rs 599.25 crore to above States. Second instalment would be released only upon utilisation of 75% of the amount released earlier.

D.Border Area Development Programme (BADP)

The Border Area Development Programme (BADP) was started during the Seventh Plan with the twin objectives of balanced development of sensitive border areas in the Western region through adequate provision of infrastructure facilities and promotion of a sense of security amongst the local population. The programme was revamped in the Eight Plan (1993-94) and extended to States, which have an international border with Bangladesh.

- The nature of the Programme was changed from a schematic programme with emphasis on education to a State level Programme with emphasis on balanced development of border areas.
- During the Ninth Plan, the programme has been further extended to States, which border Myanmar, China, Bhutan and Nepal. At present this programme covers all the seventeen States namely Arunachal Pradesh, Assam, Bihar, Gujarat, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Punjab, Rajasthan, Sikkim, Tripura, Uttar Pradesh, Uttaranchal and West Bengal which share international border with the neighbouring countries.
- The main objective of the Programme is to meet the special developmental needs of the people living in remote and inaccessible areas situated near the international border.
- The Border Area Development Programme continues to be a 100% centrally funded Area Programme. Funds are provided to the States as Special Central Assistance for execution of approved schemes on a 100% grant basis and allocated amongst the seventeen beneficiary States on the basis of (i) length of international border (ii) population of border blocks and (iii) area of border blocks. Each of these criteria is given equal weightage.
- The border block will be the spatial unit for the programme and all schemes would have to be implemented within the border blocks only.
- The work of BADP was handled by the Planning Commission up to the year 2003-04. Later on this Scheme was transferred from the Planning Commission to M/o Home Affairs and presently being handled in the Department of Border Management in MHA. Funds are being released to States in two instalments- the first instalment of 90% to be released on receipt of the schemes approved for the year (based on lock level plans) by the State Level Screening Committee and the balance 10% when 70% of the funds released during the preceding year have been utilised. The details of funds allocated and released to the State Governments under BADP during 2006-07, 2007-08 and 2008-09 are as under:-

(Rs. in crore)

Year	Allocation	Released
2006-07	520.00	520.00
2007-08	580.00	580.00
2008-09	635.00	366.86 (as on 31.10.08)

E Nutrition Programme for Adolescent Girls (NPAG)

Nutrition Programme for Adolescent Girls (NPAG) was launched by the Planning Commission in the year 2002-03 in pursuance of the announcement of the then Prime Minister on 15th August 2001, with a view to provide food grains at subsidised rates to adolescent girls and expectant and nursing mother belonging to Below Poverty Line families.

- NPAG started in 51 backward districts on Pilot Project basis initially for a period of two years viz.; 2002-03 and 2003-04, to provide food grains @ 6kg per beneficiary per month irrespective of financial status of the family to undernourished adolescent girls (weight < 35 kg) and pregnant/ lactating women(weight <40 Kg).
- In 2004-05, the programme could not be implemented as approval at the competent level could not be obtained in time.
- In 2005-06, NPAG was transferred to M/o Women & Child Development and implemented confining to adolescent girls only as pregnant and lactating mothers are covered under the ICDS scheme.
- During 2005-06, 2006-07 and 2007-08, the programme was implemented after obtaining the approval of CCEA, every year.
- MoWCD is also contemplating for expansion of NPAG in all districts in the country and its merger with Kishori Shakti Yojana (KSY) involving an allocation of approximately Rs.1600 crore per annum. MoWCD has finalised the EFC Note for the merged scheme, "Rajive Gandhi Scheme for Empowerment of Adolescent Girls" and stated to have circulated to the concerned Ministries/Departments for comments.
- In 2008-09, the CCEA approved the proposal of M/o WCD for continuation of the Programme in the year 2008-09 in existing 51 Districts as per existing Guidelines. Free food-grains at BPL rates, @Rs.6 Kg. per beneficiary per month, would be provided to the beneficiaries for which two cut off weights viz. 30 Kg for those below 15 year of age and 35 Kg over 15 years of age would be used for identification of the beneficiaries. Funds are released as Special Central Assistance (on 100% Grant basis) to States / UTs out of the allocated amount of Rs.162.77 crore for the year 2007-08.
- Finance Ministry released funds to States as Central Assistance (100% grant basis) during 2002-03 to 2008-09 under NPAG. The details of funds allocated and released to the State Governments under NPAG during 2002-03 to 2008-09 are as under:-

(Rs. in crore)

Year	Allocation BE/RE	Released
2002-03	103.33	53.95
2003-04	141.40	40.04
2004-05	141.40	0.00
2005-06	162.97	62.05
2006-07	162.77	64.47
2007-08	75.00	60.28
2008-09	162.77	20.82 (31.10.08)

F .National e-Governance Plan (NeGP)

The Government approved the National e-Governance Plan (NeGP), comprising of 27 Mission Mode Projects (MMPs) and 8 components, on **May 18, 2006**. The Scheme envisions making all Government services accessible to the common man in his locality, through common service delivery outlets and ensure efficiency, transparency & reliability of such services at affordable costs to realise the basic needs of the common man. **At present there are 3 Components operational under the Scheme:-**

(i) Common Service Centres: The Government has approved a Common Services Centres (CSCs) Scheme for providing support for establishing 100,000 Common Services Centers in 600,000 villages of India. The Scheme, as approved by the Government of India, envisions CSCs as the front-end delivery points for Government, private and social sector services to rural citizens of India, in an integrated manner.

(ii) State Wide Area Networks (SWAN): The SWAN Scheme for 29 States & 6 Union Territories, at an estimated outlay of Rs.3334 Crore, was approved by Govt. of India, in March 2005 to set up State Wide Area Networks (SWAN), interconnecting each State / UT Head Quarter with District Head Quarter and below each District Head Quarter with the Block Head Quarters with minimum 2 Mbps leased line.

(iii) State Data Centres (SDC): State Data Centre (SDC) has been identified as one of the important element of the core infrastructure for supporting e-Governance initiatives of National e-Governance Plan (NeGP). Under NeGP, it is proposed to create State Data Centres for the States to consolidate services, applications and infrastructure to provide efficient electronic delivery of G2G, G2C and G2B services.

The Ministry of Communications and Information Technology is the nodal ministry in charge of the Scheme. In 2007-08, as against the budget allocation of Rs.344.84 crore, Rs.272.08 crore was released. The budget allocation for 2008-09 is Rs.469.37 crore.

G. Jawaharlal Nehru National Urban Renewal Mission(JNNURM)

- The JNNURM scheme was approved by Cabinet in December, 2005 and is scheduled for a period of 7 years until 2012.
- The main objective of the scheme is to provide integrated development of infrastructural services in cities including the peri-urban areas; to secure effective linkages between asset creation and asset management so that assets created become self sustaining, to take up urban renewal i.e. re-development of older cities etc. The main thrust of the Schemes is on creation of infrastructure projects relating to water supply, including sanitation, sewerage, solid management, urban renewal, urban transport etc. and housing for the poor.

- The scheme is reform driven and has 4 components :-
 - 1) Sub-Mission on Urban Infrastructure and Governance (SMUIG).
 - 2) Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT).
 - 3) Sub-Mission on Basic Services to Urban Poor (BSUP).
 - 4) Integrated Housing and Slum Development Programme (IHSDP).
- State Govts. and ULBs are required to accept implementation of an agenda of reforms. The State Government and the ULBs execute a Memorandum of Agreement (MoA) with Govt. of India indicating their commitment to implement a set of mandatory and optional reforms.
- The Sub Missions on UIG and BSUP are being implemented in 63 Mission towns while the other 2 Sub-missions viz. UIDSSMT and IHSDP are being implemented in all cities/ towns, excepting cities/ towns covered under UIG/ BSUP.
- The projects are sanctioned by the Central Sanctioning and Monitoring Committees (CSMC) chaired by Secretary, Ministry of Urban Development and Ministry of HUPA. The projects under the scheme are implemented by State level implementing agencies.
- The status of sanction of projects and release of funds for the projects under each Sub-Mission of the scheme is at Annexure-II.
- Budget Provision and release of Central assistance under the scheme during the last 3 years (2005-06 to 2007-08) is as under

(Rs. in crore)

Year →	2005-06		2006-07		2007-08	
Sub- Mission ↓	Budget Provision (RE)	Release	Budget Provision (RE)	Release	Budget Provision (RE)	Release
SMUIG	150.00	90.11	1771.93	1262.94	2474.00	2474.00
UIDSSMT	-	87.47	740.00	1204.00	1204.00	651.95
BSUP	100.00	72.14	722.00	901.77	1022.00	1022.00
IHSDP	-	-	362.00	492.60	788.00	788.00
Total	250.00	249.72	3595.93	3861.31	5488.00	4935.95

H. Accelerated Irrigation Benefits Programme (AIBP)

- Accelerated Irrigation Benefits Programme (AIBP) was launched during 1996-97 to provide Central Loan Assistance (CLA) to States for accelerating the implementation

of large and multi-purpose projects, where substantial progress had been made but were beyond the resource capability of the States.

- During the year 2004-05, grant component was also introduced under the scheme. However, as per the recommendations of Twelfth Finance Commission (TFC), the loan component has been discontinued w.e.f. 01.04.2005 and the States have been asked to raise the loan requirement of funds under the scheme from the market.
- Pattern of funding is Central grant equivalent to 90% of project cost in case of Special Category States, projects benefiting drought prone/tribal areas; and 25% of project cost in case of Non-Special Category States. The balance cost of the project being State's share is to be arranged by the State Government from its own resources.
- Planning Commission has approved a total outlay of Rs. 47015 crore for the 11th Five-Year Plan for the State Plan schemes in the water resources sector as under:

(Rs. in crores)

S.No.	Scheme	Amount provided by Planning Commission	Amount approved by the Cabinet for XI Plan
1	AIBP-Regular Programme	39850.00	43700.00
2	Flood Management Programme	2715.00	8000.00
3	Command Area Development and Water Management	1600.00	1600.00
4	Repair, Renovation and Restoration of Water Bodies (RRR)-Externally assisted	2750.00	Yet to be approved
5	Dam Rehabilitation and Improvement Programme	100.00	Yet to be approved
	Total	47015.00	

During 2007-08, there was budget provision of Rs. 3580 crore for AIBP & other Water Related Scheme. In order to meet commitments under PM's package and enhanced demand made by MOWR budget provision was enhanced to Rs. 5580 crore and the same was released during 2007-08.

During the current year 2008-09, as against a BE of Rs.5550 crore Rs. 3935.58 crore has been released as on 03.11.08.

Annexure-I

(Rs. In Crore)

Central Assistance Scheme-wise released to states during 2008-9 as on 31/10/2008

Sl. No.	Scheme	Total Provision			Plan Release		
		Loan	Grant	Total	as on 31-10-2008		
					Loan	Grant	Total
A.	PLAN						
1	Normal Central Assistance	0	16398.98	16898.98		10039.04	10039.04
2	Special Plan Assistance	0	4602	4602		1523.86	1523.86
3	Special Central Assistance	0	0	0			0
4	ACA for other projects	0	1093	1093			0
	Sub total (1to 4)	0	22093.98	22593.98	0	11562.9	11562.9
5	ACA for EAP	5867.5	2782.5	8150	3352.8	1181.7	4534.5
6	SCA for Hill Area	0	272	272		177.65	177.65
7	SCA for Boarder Area	0	635	635		313.68	313.68
8	AIBP	0	5550	5550		3778.39	3778.39
9	APDRP	0	800	800		202.97	202.97
10	NSAP	0	3442.24	3442.24		2581.65	2581.65
11	NPAG	0	162.77	162.77		20.82	20.82
12	National E-governance (NEGAP)	0	469.37	469.37		3.72	3.72
13	NURM-SM UIG	0	3100.37	3100.37		1166.08	1166.08
14	NURM - UIDSMT	0	879.69	879.69		651.95	651.95
15	NURM - SM BSUP	0	1656.54	1656.54		388.41	388.41
16	NURM - IHSDP	0	611.38	611.38		261.59	261.59
17	BRGF	0	1130	1130		97.5	97.5
18	Tsunami Rehabilitation Program (TRP)	0	460	460			0
19	Brihan Mumbai Storm Water Drain Project (BRIMSTOWAD), Mumbai	0	100	100			0
20	Commonwealth Youth Games, Pune.	0	60	60			0
21	ACA for Damaged Assets-2005 calamities		636.87	636.87			
22	ACA For Desalination Plant in Tamil Nadu		300	300			
	Total (A)	5867.5	45142.71	51010.21	3352.8	22389.01	25741.81

Annexure-II

Sanction of projects under JNNURM

As on 20.11.2008

(Rs. in crore)

Sub-Mission	Allocation for 7 years (2005-12)	No. of Cities/Towns Covered	No. of Projects approved	Total Cost	GoI Commitment until now	Amount of ACA Released (so far)	%age released (Col.7 as %age of col.2)
1	2	3	4	5	6	7	8
SMUIG	25500	59	344	32988.62	15770.05	4993.13	19.58
UIDSSMT	6400	422	525	8008.50	6429.85	3192.39	49.88
BSUP	13650	61	281	17845.00	7835.31	2384.32	17.47
IHSDP	4450	447	477	4472.79	3153.39	1542.19	34.66
Total	50000		1627	63314.91	33188.60	12112.03	24.22