FM's Opening Speech at Consideration Stage
28 April 2010

Madam Speaker,

As I rise to move the Finance Bill, 2010 for consideration of this august House, it is with some satisfaction that I report the positive developments in the Indian economy in the last few months. The turnaround of the economy which started in the second quarter of 2009-10 is likely to result in a growth of 7.2 per cent for the full year 2009-10 as indicated in the Advance Estimates of the Central Statistical Organisation.

2. The upward shift in India's growth trajectory has been anchored strongly in robust growth in consumption. The salutary impact of the fiscal stimulus along with the monetary measures implemented by the RBI, facilitated the growth recovery by regenerating the investment impulses and private spending.

3. In the Budget for 2010-11, I have initiated a partial roll back of stimulus measures and a resumption of the fiscal consolidation process with fiscal deficit at 5.5 per cent of GDP. The Medium Term Fiscal Policy Statement 2010-11 provides the roadmap with fiscal deficit declining to 4.8 per cent of GDP in 2011-12 and further to 4.1 per cent of GDP in 2012-13. A focus on bringing down the level of public debt as envisaged in the Thirteenth Finance Commission's Report and as announced in the Budget for 2010-11 would anchor the fiscal consolidation process in a sustainable debt framework.

Madam Speaker,

Inflation

4. The year 2009 started with low WPI inflation of 1.3 per cent in April, 2009, which relapsed to the negative zone during June to August, 2009. The WPI inflation turned positive in September 2009, thereafter, an upward trend has been

observed. Clearly, the current levels of inflation are elevated and more generalized and the WPI inflation in March 2010 stood at 9.9 per cent. What has led to deep concern is the double-digit food inflation. The gradual increase in food inflation observed till December 2009 was due to expectations of supply-side constraints of food items, especially due to unfavorable south-west monsoon. As per the Second Advance Estimates of production of food grains for 2009-10, the total food grains production has been estimated at 216.85 million tones, which is about 5 per cent lower than the second advance estimate of last year.

5. The Government has utmost concern about the current price situation. We have taken a number of short term and medium term measures to improve domestic availability of essential commodities and to moderate inflation. These include: reducing import duties for rice, wheat, pulses, edible oils and sugar to zero; allowing import of raw sugar at zero duty under open general licence; removing levy obligation for imported raw sugar and white/ refined sugar; banning export of non-basmati rice, edible oils and pulses and imposing stock limit orders in the case of paddy, rice, pulses, sugar, edible oils and edible oilseeds. A Core Group of Chief Ministers and Central Ministers has been constituted on 15th March, 2010 to discuss issues related to prices of essential commodities. Besides, to protect the interest of poor and vulnerable sections of the society, the Central Issue Prices for rice and wheat have been kept unrevised at 2002 levels.

6. We have sufficient stocks of wheat and rice to meet the demands of the Public Distribution System and other welfare schemes. As on 15.4.2010, 25.4 millions of wheat in RMS 2009-10 and 25.9 million tonnes of rice have been procured in KMS 2009-10 (October to September). The Central Pool stock of wheat is at a high of 183.88 lakh tonnes and of rice at 269.50 lakh tonnes as on 1.3.2010.

7. In the case of pulses, the shortfall of domestic production has been made up by higher imports. Considerable support has been provided to the Public Distribution System. For pulses and edible oil, the Government is bearing a

subsidy of Rs.10 per kg. and Rs.15 per kg. respectively for distribution through PDS/Fair Price Shops. The Core Group of Chief Ministers and Central Ministers held its first meeting on 8th April, 2010. Three Working Groups consisting of Chief Ministers of various States are now engaged in drawing up recommendations on agricultural production, consumer affairs and food and public distribution. The reports are expected by the middle of June, 2010.

8. Indications of softening of food inflation are clearly visible. There has been a significant decline from the peak food inflation of over 20 per cent recorded in December 2009 to 17.7 per cent in March 2010. Besides, the inflation in essential commodities also declined from the peak of 23.8 per cent in January 2010 to 19.8 per cent in March 2010. It is expected that this decline would continue in the recent months uninterruptedly.

9. The monetary policy stance has also been gradually fine-tuned by RBI to face the inflationary challenges. The Repo Rate has been increased from 5 per cent to 5.25 per cent and Reverse Repo Rate from 3.50 per cent to 3.75 per cent. The CRR has also been increased from 5.75 per cent to 6 per cent. These measures are expected to anchor the inflationary expectations.

Madam Speaker,

Growth prospects

10. While the slowdown in agriculture, inflicted by the monsoon failure, poses concern on the food and food prices front, the impressive recovery achieved by the Indian industry in the recent months is heartening. The Index of Industrial Production recorded a growth of 10.1 per cent during April-February 2009-10, compared to 3.0 per cent during April-February 2008-09. While both manufacturing and mining grew around 10 per cent, electricity grew at 5.8 per cent during April-February 2009-10. All the major segments of industry except

consumer non-durables staged a strong recovery. The intermediate goods grew at 13.7 per cent and consumer durables recorded an appreciable 25.5 per cent growth in April- February 2009-10. The growth of capital goods at 18.2 per cent in April- February 2009-10, on top of their reasonable growth in the previous year, is indicative of the pickup in investment demand.

Madam Speaker,

Tax Reform

11. I have already informed the House that the Government is firmly committed to the goal of comprehensive tax reform through the introduction of the Direct Taxes Code (DTC) as well as the Goods and Services Tax (GST). I am happy to inform the Hon'ble Members that, in the case of DTC, the process of consultation with the stakeholders for revising the first draft is almost over. We expect to place a revised Discussion Paper in the public domain by next month. After a quick round of consultations with some of the major stakeholders, we should be able to submit the draft legislation to Parliament in the monsoon session.

12. I have indicated my intent to introduce GST in the country with effect from 1st April, 2011. Central Government is closely engaged with the Empowered Committee of the State Finance Ministers in finalizing the GST design. Some of the States apprehend that they may lose some revenue in the initial years of the GST regime. Central Government is willing to provide compensation to the States for these initial years, provided there is agreement on the broad framework for a common threshold for Goods and Services between the Centre and the States; common exemption lists between the Centre and the States; mechanism to check deviations and acceptable level of overall GST rates. The design and modalities of providing this compensation would be worked out in discussion with the State Governments and the Empowered Committee.

Outlook for 2010-11

13. There are several factors that have emerged from the performance of the economy in the recent period which augur well for the Indian economy. Attesting the impressive recovery of the industrial sector, there is a revival in investment and private consumption demand, though demand recovery is yet to attain the pre-2008 momentum. The favourable capital market conditions with improvement in capital flows and business sentiments are also encouraging. There is also a significant pick-up in corporate earnings and profits. The outlook is further brightened by the fact that a normal monsoon is predicted this year.

14. Going by these indications and considering that agriculture had a set-back in 2009-10 and is only gradually getting back to the projected path, the Indian economy is expected to grow around 8.5 during 2010-11 and to breach the 9 per cent mark in 2011-12.

Madam Speaker,

15. Since the presentation of the Budget on 26th February, 2010, we have received a large number of representations and suggestions both from trade and industry as well as my colleagues in this august House. While some seek modifications to the existing proposals, others have urged for fresh reliefs. Some valuable suggestions were also made by the Hon'ble members during the general discussion on the Budget in the first phase of this session. I expect to receive many more suggestions in the course of the ensuing discussion on the Finance Bill. I shall cover the reliefs we propose to grant, the amendments that we seek in the Bill and our response to the issues that are raised in discussions, in my reply.

With these words, Madam Speaker, I move for consideration of the Finance Bill, 2010.

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