

**FURTHER CONCESSIONS IN CENTRAL EXCISE & SERVICE TAX ANNOUNCED**  
**CUSTOMS DUTY EXEMPTION ON NAPHTHA EXTENDED BEYOND THIS FISCAL**

February 24,2009

Following are the extracts from the reply of Finance Minister, Shri Pranab Mukhejee on Interim Budget 2009-10, in Lok Sabha, here today:

“My friends from the other side have raised a number of issues. They have blamed the UPA Government for failure on the economic front, on the performance of the public sector, on employment generation, inflation, on fiscal deficit, plight of farmers, FDI and inadequacies of our regulatory framework. They have also pointed towards the “lost opportunities” in my Interim Budget speech.

Let me turn to some figures that tell their own story. A look at the comparative annual average figures between the two periods shows:

The GDP growth rate which was 5.8 per cent during 1999-2004 rose to 8.6 per cent during the 2004-2009.

The fiscal deficit and revenue deficit that stood at 5.5 per cent and 4.0 per cent respectively during 1999-2004 declined to 4.1 per cent and 2.5 per cent during 2004-09.

The Tax to GDP ratio went up from 8.8 per cent during 1999-2004 to 11.1 per cent during 2004-09, while the Savings to GDP ratio which was 25.6 per cent in 1999-2004 shot up to 34.8 per cent during 2004-08.

Similarly, Investment to GDP ratio at 25.2 per cent during 1999-2004 went upto 35.9 per cent during 2004-08.

The Government’s policy on disinvestment does not envisage any outright or strategic sale of a Central Public Sector Enterprise (CPSE). The focus of the policy is to enable unlisted and profitable CPSEs to raise capital through Initial Public Offerings (IPOs) with the Government offering a minority shareholding for divestiture. The intent is to ensure that Government equity remains above 51% and Government retains management control. However, because of the adverse market conditions during the year 2008-09, there has not been a single IPO and nor has there been any disinvestment.

The UPA Government is making all possible efforts to turnaround the loss making Central PSE’s like Indian Telephone Industries (ITI) through the infusion of funds and superior techno-managerial practices.

It is important to recognize that the Union Budget statement is just one of the instruments for addressing economic policy concerns. Indeed, right from the day when the financial crisis

erupted in the middle of September 2008, the Government has been alert and responsive to the fast changing developments. Government has undertaken the required administrative and fiscal measures in tandem with the monetary policy initiatives of the RBI by announcing two stimulus packages on December 7, 2008 and January 2, 2009.

A number of Tax and other fiscal measures have been undertaken. These include:

- An across the board cut in CENVAT by 4 percentage points benefitting all sectors;
- Reduction of the rate of duty on cotton textiles and textile articles from 4% to Nil.
- Provision of additional funds of Rs.1100 crore to ensure full refund of Terminal Excise duty/CST.
- Specific measures on customs duties on sectors such as steel and cement through restoration of the levels of protection;
- Service tax concessions and enhancement of drawback rates for exports.
- Interest subvention on pre and post shipment credit for labour intensive exports like textiles, leather, gem and jewellery, carpets and handicrafts; and
- Extension of a Line of Credit (LoC) by Rs.5000 crore to EXIM Bank from RBI to provide pre-shipment and post-shipment credit, in rupees or dollars, to Indian exporters at competitive rates.
- Refinance facilities respectively of Rs.4000 crore for the National Housing Bank for housing sector.
- Announcement of a package by Public sector banks for borrowers of home loans of up to 20 lakhs. This sector will be kept under a close watch and additional measures would be taken as necessary to promote an accelerated growth trajectory.
- Provision of additional allocation of Rs.1400 crore to clear the entire backlog in Technology Upgradation Fund (TUF) Scheme in the textile sector.
- Inclusion of all items of handicrafts under 'Vishesh Krishi & Gram Udyog Yojana'.
- To facilitate the flow of credit to Medium, Small and Micro Enterprises (MSMEs), RBI has announced a refinance facility of Rs.7000 crore for SIDBI which will be available to support incremental lending, either directly to MSMEs or indirectly via banks, NBFCs and SFCs. In addition, the following steps are being taken.
  - (a) To boost collateral free lending, the current guarantee cover under Credit Guarantee Scheme for Micro and Small enterprises on loans will be extended from Rs.50 lakh to Rs.1 crore with guarantee cover of 50 percent.

(b) The lock in period for loans covered under the existing credit guarantee scheme will be reduced from 24 to 18 months, to encourage banks to cover more loans under the guarantee scheme.

(c) Public Sector Banks have announced a reduction of interest rates on existing as well as new loans to MSME sectors.

(d) Special monthly meetings of State Level Bankers' Committees would be held to oversee the resolution of credit issues of micro, small and medium enterprises by banks. Department of MSME and Department of Financial Services will jointly set up a Cell to monitor progress on this front. Matters of MSMEs remaining unresolved with the Banks- SME Helpline for more than a fortnight may be brought to the notice of this Cell.

To provide a measure of security to unorganized workers, we have enacted the Unorganized Worker Sector Social Security Bill, 2008. The National Commission of Enterprises in the Unorganized Sector (NCEUS) has been asked to work out the detailed schemes in this regard.

The recommendations of the Committee of Governors for speedy socio economic development and empowerment of Women is under the active consideration of the Government. Meanwhile, the UPA Government has decided:

(i) to set up a High Power Committee of eminent persons and experts to study the Status of Women of India to enable the Government to take expeditious action.

(ii) to set up a 'National Mission for Empowerment of Women' for implementation of women-centric programmes in a Mission mode to achieve better coordination and synergy amongst the participating stakeholders.

(iii) to restructure and revitalize the Rashtriya Mahila Kosh (RMK) to scale up their activities including that of backward and forward linkages to function as a single window facilitator and service provider for women Self-Help Groups (SHGs). The authorized and paid-up capital of RMK will be enhanced in a phased manner.

### **Monetary Policy Measures**

RBI took a number of liquidity enhancing measures to deal with the global crisis. These include:

- Reduction of the repo rate from 9 per cent in August 2008 to 5.50 per cent in January 2009.
- Reduction of the reverse repo rate which remained at 6 per cent from mid 2006 in December 2008 and January 2009 respectively by 1 per cent each to bring it to a level of 4 per cent.
- Reduction of the Cash Reserve Ratio from 9 per cent as on August 30, 2008 to 5 per cent with effect from January 17, 2009.

It is important to recognize that there is always some time lag between the announcement of a

measure, be it fiscal or monetary, its implementation and its intended impact on the economy and financial parameters of the economy.

Latest figures confirm that our two fiscal packages are steps in the right direction. The data available for the month of December 2008 shows that some of the key sectors of manufacture are exhibiting early signs of recovery compared to November 2008. Cement production has gone up by 8 per cent in December- January and Steel has recorded a production of 22.8 million Metric Tons which is equivalent to the production in May 2008. For the quarter ending December 2008, FMCG registered a growth of more than 25 per cent and Food and Beverages 28 per cent. Railway freight which had declined to 2.2 per cent in October-November 2008 has recovered to a growth of 7 per cent in December, 2008. These are encouraging signs considering that all forecasts point towards a much bleaker 2009 as far as international economy is concerned.

### **New Concessions**

Within the constitutional constraints, I have some flexibility which I want to use to provide further stimulus to the economy.

Even though the signals are encouraging, the full impact of the recession in other parts of the world specially Europe and Asia is yet to unfold. Due to the strong export linkages with these economies, it is likely that the Indian economy may feel further impact in coming months. To counter any such effects, the UPA Government has taken the following decisions:

### **Central Excise**

- General reduction in Excise Duty rates by 4 per cent points was made with effect from 7.12.2008. It is now being extended beyond 31 March, 2009. In addition, it has now been decided to:
- reduce the general rate of Central Excise duty from 10 per cent to 8 per cent.
- retain the rate of central excise duty on goods currently attracting ad valorem rates of 8 per cent and 4 per cent respectively;
- reduce the rate of central excise duty on bulk cement from 10 per cent or Rs. 290 PMT, whichever is higher to 8 per cent or Rs.230 PMT, whichever is higher.

### **Service Tax**

The Government is keen that the business confidence in the Services sector is restored. It is also our objective that the dispersal between CENVAT rate and the Service Tax rate is reduced with a view to move towards the stated goal of a Uniform Goods and Service Tax. In line with this objective, it has been decided to reduce the rate of service tax on taxable services from 12 percent to 10 per cent.

To provide relief to the power sector, Naptha imported for generation of electric energy has been

fully exempted from basic Customs Duty. This exemption which was available upto 31 March 2009, is now being extended beyond that date.

Section 10 AA of the Income Tax provides for exemption in respect of export profits of a unit located in a Special Economic Zone (SEZ). The export profits are required to be computed with reference to the total turn over of the assessee. This has resulted in discriminatory treatment of assesseees having units located both in SEZ and the Domestic Tariff Area (DTA) vis-à-vis assesseees having units located only within the SEZs. It has now been decided to remove this anomaly through necessary changes in the Act.

Hon'ble Members may recall that in my Budget Speech, I had indicated that we may have to review the ceiling of fiscal deficit that the States can incur in 2009-10 in terms of the debt consolidation and relief facility. As a part of the first stimulus package, it was increased by 0.5 per cent to 3.5 per cent of the Gross State Domestic Product (GSDP) for 2008-09. To spur the development of infrastructure and employment generation, this arrangement is being extended to 2009-10 with the possibility of further review, if required, in the coming months.

Our priorities are clear. Rapid development of infrastructure, both in rural and urban areas, and agriculture growth leading to employment generation and distributive justice tops the list. For us economic growth is an instrument for development and not an end in itself. Economic growth has to be both inclusive and equitable. It must provide social justice and lead to the empowerment of Aam Aadmi. In the last five years, the UPA Government has moved steadfastly in that direction. But a social revolution which must flow from these measures is a long process and has to be worked out carefully and systematically, not only through economic growth and mobilization of resources, but also through institutional changes and mobilization of the masses. It is my earnest hope that we will all walk together in the journey ahead to achieve this shared vision.”

**BSC/BY /GN-69/09**