Mid-Year Analysis
2011-2012

Outcome of the review of the trends in receipts and expenditure
in relation to the budget at the end of the second quarter
of the financial year 2011-2012

and

Statement explaining deviations in meeting the obligations
of the Government under the Fiscal Responsibility
and Budget Management Act, 2003

(vide Section 7(1) and 7(3)(b) of the said Act)

Ministry of Finance
Department of Economic Affairs
Economic Division

MID-YEAR ANALYSIS
CONTENTS

CHAPTER I

OVERVIEW OF THE ECONOMY

A. Introduction

The Indian economy continued to be a key driver of the global growth process with a GDP growth of 8.5 per cent in 2010-11. Even in the current fiscal year, which has been a relatively difficult one, with the growth rate slowing down to 7.3 per cent in the first half,India is still among the global frontrummers. The slowdown is mainly on account of the sluggishness in industrial sector, which registered a growth rate of 4.2 per cent in the first half of the current financial year compared to 8.1 per cent in the corresponding period of the last year. The growth in agriculture was 3.6 per cent which is approximately the same as in the corresponding period of the previous year. With growth just short of double digit, the services sector continues to be the mainstay of the economy and a key driver of the nation's overall growth.

1.2 The slowdown in the first half of 2011-12 can be partly attributed to global factors viz., the slowdown in the world economy, exacerbation of the euro zone crisis, hardening of crude oil prices in the international market, as well as to domestic factors, such as the decision to battle inflation by tightening monetary policy and cutting back on the fiscal stimulus. Through these difficult months India's international trade has, however, registered one of the fastest growth rates witnessed in recent times, with exports increasing by 52 per cent and imports increasing by 32 per cent in the first half of the current fiscal. One of the persistent problems in the current year has been inflation, which has been stubborn at around 9 per cent per annum through the first six months of the current fiscal year, even though, there have been signs of a slowdown in the last months. As such, the Reserve Bank of India (RBI) had to raise policy rates by 175 basis points this year. Fiscal policy has been in a consolidation mode. Moderation in the level of Foreign Institutional Investment (FII) flows has resulted in a decline in the equity indices and a sharpe depreciation of the rupee in the forex markets, though a part of this depreciation merely reflects the higher inflation in India vis-à-vis industrialized nations over the last year and a half. The decline and retreat of FII flows occurred because of the mood of global uncertainty prompted by gradual unfolding of the euro zone crisis and the threat of sovereign defaults and cascading effect in other sectors. Not surprisingly, the movements of FII flows to India are broadly in line with indicators in other emerging and developing economies.

B. Growth

Growth is slowing on global cues and domestic factors; may have bottomed out.

1.3 The GDP at factor cost at constant 2004-05 prices in the first half of 2011-12 registered a growth rate of 7.3 per cent over the first half of 2010-11. The growth rates of first and second quarters were 7.7 per cent and 6.9 per cent respectively (Table 1.1).

Table 1.1 Quarterly growth in GDP

(in percent)

	2010-11				2011-12	
	Q1	Q2	Q3	Q4	Q1	Q2
1 Agriculture, forestry & fishing	2.4	5.4	9.9	7.5	3.9	3.2
Industry	**9.1**	**7.1**	**7.1**	**6.1**	**5.1**	**3.2**
2 Mining & quarrying	7.4	8.0	6.9	1.7	1.8	-2.9
3 Manufacturing	10.6	7.8	6.0	5.5	7.2	2.7
4 Electricity, gas & water supply	5.5	2.8	6.4	7.8	7.9	9.8
5 Construction	7.7	6.7	9.7	8.2	1.2	4.3
Services	**10.4**	**9.6**	**8.4**	**8.7**	**10.0**	**9.3**
6 Trade, hotels, transport & communication	12.1	10.2	8.6	9.3	12.8	9.9
7 Financing, insurance, real estate & business services	9.8	10.0	10.8	9.0	9.1	10.5
8 Community, social & personal services	8.2	7.9	5.1	7.0	5.6	6.6
Total GDP at factor cost	**8.8**	**8.4**	**8.3**	**7.8**	**7.7**	**6.9**

Source: Central Statistics Office (CSO)

1.4 In the second quarter of the current fiscal, agriculture and industry grew by 3.2 per cent each and services grew by 9.3 per cent. The lower levels of growth owe to low growth in manufacturing of 2.7 per cent, construction (4.3 per cent) and a negative growth in mining and quarrying sector. Sectors that have posted good growth rates in the second quarter include 'Electricity, gas and water supply', registering a growth of 9.8 per cent, 'Trade, hotels, transport and communications' (9.9 per cent) and 'Financing, real estate and business services' (10.5 per cent).

1.5 The sectoral composition in the GDP does not change significantly in the short run. However, the relative shares of different sectors of the economy undergo some shifts, depending on this growth performance of the different sectors (Table 1.2). The decline in the share of the agriculture sector is in line with the long term trend expected in a rapidly growing economy. This in turn reflects the inherent tendency of the agriculture sector to grow relatively slower than other sectors during rapid overall development. The share of the industry sector also declined in the second quarter reflecting slower growth mainly because of global slowdown but also a result of the tightening monetary and fiscal policies. Of course, it may also be observed that there are seasonal factors playing a role in variations in the sectoral shares on a quarterly basis. Such variations are less pronounced or hardly visible in the annual data.

Table 1.2: Sectoral contribution of GDP at factor cost

(in percent)

	2010-11				2011-12	
	Q1	Q2	Q3	Q4	Q1	Q2
1 Agriculture, forestry & fishing	**14.1**	**11.5**	**17.5**	**14.2**	**13.6**	**11.1**
Industry	**28.7**	**28.5**	**26.8**	**27.9**	**28.0**	**27.6**
2 Mining & quarrying	2.3	2.2	2.2	2.3	2.2	2.0
3 Manufacturing	16.1	16.3	15.2	15.9	16.0	15.7
4 Electricity, gas & water supply	2.0	2.0	1.8	1.9	2.0	2.0
5 Construction	8.2	8.0	7.6	7.9	7.7	7.8
Services	**57.2**	**60.0**	**55.6**	**58.0**	**58.4**	**61.4**
6 Trade, hotels, transport & communication	26.3	27.1	25.9	27.9	27.6	27.9
7 Financing, insurance, real estate & business services	18.1	18.2	16.9	16.7	18.3	18.8
8 Community, social & personal services	12.8	14.7	12.8	13.4	12.5	14.7
Total GDP at factor cost	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: CSO

1.6 On the demand (expenditure) side, the GDP at constant market prices registered a growth rate of 7.6 per cent in the first half of current year vis-à-vis a growth of 8.9 per cent in the corresponding period of last year. The growth has been 8.5 per cent in the first quarter and 6.7 per cent in the second quarter. The growth particularly slowed down in fixed investment in the second quarter and fixed investment was in fact lower in the first quarter of 2011-12 vis-à-vis 2010-11 in absolute terms, representing a negative growth. The sectoral shares of various components of the demand (expenditure) side are given in Table 1.3.

Table 1.3: Sectoral Contribution in GDP at Market Prices

(in percent)

	2010-11				2011-12	
	Q1	Q2	Q3	Q4	Q1	Q2
1. Total final consumption expenditure	**72.8**	**70.9**	**72.3**	**63.1**	**70.9**	**70.1**
1.1 Private final consumption expenditure	61.7	59.9	60.1	52.6	60.5	59.5
1.2 Government final consumption expenditure	11.1	10.9	12.2	10.5	10.4	10.7

	2010-11				2011-12	
	Q1	Q2	Q3	Q4	Q1	Q2
2. Gross capital formation	**37.4**	**38.8**	**36.0**	**37.8**	**37.8**	**36.8**
2.1 Gross fixed capital formation	31.4	32.8	30.5	32.1	31.2	30.5
2.2 Changes in stocks	3.6	3.6	3.3	3.4	3.5	3.4
2.3 Valuables	2.4	2.4	2.2	2.2	3.1	2.9
3. Exports	21.2	21.2	21.9	23.1	24.3	25.3
4. *Less* Imports	28.9	28.8	25.7	27.0	33.0	29.9
GDP at 2004-05 market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Compiled from CSO

Totals may not add up to hundred due to discrepanices

1.7 Private consumption accounts for around three fifth of the GDP at market prices. It has been relatively stable in the first two quarters of the current year broadly keeping in line with the trends observed in the previous years. The share of Government expenditure has declined marginally, pointing towards fiscal consolidation. The share of exports and imports registered a significant increase in GDP because of strong growth performance in exports and imports in the 1st half of the current financial year. Exports and imports put together accounted for around 56 per cent of GDP in the first half of current year as compared to 50 per cent in the corresponding period last year.

1.8 As stated in Para 1.5, seasonal factors also explain a significant variations in the quarterly performance. In view of this it is useful to analyse the sequential deseasonalised growth momentum.While, year-on-year growth in GDP at factor cost at constant prices is slowing since the first quarter of 2010-11, on an annualized sequential deseasonalised basis, it has been a mixed picture since then. On the basis of the latter, the momentum in the second quarter of the current fiscal has been better than the headline indicator. In terms of the sequential quarter on quarter deseasonalised measure, barring mining, manufacturing and industry as a whole, all other major sub-sectors indicate high growth momentum in the second quarter. This augurs well for the outcome in terms of GDP growth for the year as a whole.

C. Prices

Inflation remained sticky

1.9 The overall picture during the current fiscal so far has been one of persistently high headline inflation even though there are some signs of a slowdown during the last few weeks. This has been a major cause of concern for both the Government and the Reserve Bank of

India, and they are taking a number of measures to address it. The reasons for this persistently high inflation can be found in both supply and demand side factors. The headline WPI inflation has remained sticky at around 9 per cent with an upward bias for the last sixteen months (July 2010-October 2011). Inflation in terms of Consumer Price Index for Industrial Workers (CPI-IW) was at single digit level from August 2010 to August 2011. The average inflation in consumer price index for industrial workers was around 9 per cent during the first half of 2011-12, which is significantly lower than around 12 per cent for the same period last year. This lower momentum in the first half of the current fiscal is a pointer to the impact of anti-inflationary policies of the Government and favourable performance of agricultural sector.

1.10 The year-on-year headline WPI inflation in October 2011 was 9.7 per cent, little changed from previous levels. Inflation in Primary Articles and Manufactured Products declined in the current month. During current financial year, the average WPI inflation for last seven months (April-October, 2011) was 9.6 per cent compared to 9.9 per cent during same months last year.

Food and non-food inflation

Both food and non-food items have been driving up the indices

1.11 Inflation in food items has been a major source of high headline CPI inflation. The food inflation based on CPI-IW (weight 46.20%) is still at single digit level from February 2011 and reported as 8.7 per cent in October 2011. It may be mentioned that CPI food inflation had reached an elevated level of 21.29 per cent in December 2009 due to a supply shock. Inflation measured in terms of other CPIs viz. CPI-AL and CPI-RL has remained in single digit during the last 15 months (August 2010 to October 2011).

1.12 The sources of inflation have also switched to non-food from February 2011, primarily due to imported global commodity inflation. In October 2011, food inflation was at 9.9 per cent and non-food inflation remained at 9.7 per cent, which is at the same level as the headline inflation. In case of WPI and CPI-AL/RL, the information is available up to October 2011 (Table 1.4)

Table 1.4: Food and non-food inflation in WPI and CPIs **(in percent)**

	Headline inflation				Food inflation				Non-Food inflation			
	WPI	CPI-IW	CPI-AL	CPI-RL	WPI	CPI-IW	CPI-AL	CPI-RL	WPI	CPI-IW	CPI-AL	CPI-RL
Weight	**100**	**100**	**100**	**100**	**24.31**	**46.2**	**69.15**	**66.77**	**75.7**	**53.8**	**30.85**	**33.23**
Jan-11	9.47	9.30	8.67	8.69	10.28	10.22	7.54	7.53	9.15	8.39	11.45	11.26
Feb-11	9.54	8.82	8.55	8.55	6.77	7.65	7.09	6.90	10.62	9.98	12.07	12.13
Mar-11	9.68	8.82	9.14	8.96	6.78	8.29	7.16	7.34	10.79	9.34	13.84	12.37
Apr-11	9.74	9.41	9.11	9.11	8.95	8.24	7.34	7.14	10.04	10.56	13.24	13.24
May-11	9.56	8.72	9.63	9.63	8.11	7.61	7.50	7.48	10.11	9.81	14.62	14.14

	Headline inflation				Food inflation				Non-Food inflation			
	WPI	CPI-	CPI-	CPI-	WPI	CPI-	CPI-	CPI-	WPI	CPI-	CPI-	CPI-
Jun-11	9.51	8.62	9.32	9.14	8.04	6.91	6.85	6.83	10.08	10.32	15.15	14.01
Jul-11	9.36	8.43	9.03	9.03	8.17	6.25	6.39	6.38	9.82	10.59	15.24	14.63
Aug-11	9.78	8.99	9.52	9.71	9.19	7.33	7.09	6.89	10.01	10.62	15.17	15.70
Sep-11	9.72	10.06	9.43	9.25	8.81	8.29	6.48	6.65	10.07	11.81	16.40	14.73
Oct-11	9.73	9.39	9.36	9.73	9.91	8.72	6.79	6.78	9.66	10.06	15.40	15.99

P: WPI inflation is provisional for September and October 2011

1.13 Headline WPI has increased, year-on-year by 9.73 per cent in October 2011. A look at the point contribution to year-on-year inflation reveals that in case of all commodities and particularly primary articles, the bulk of the contribution came in three months viz, Dec-10, Jan-11 and Apr-11. In case of fuel group, major contribution was in the months of February April 2010 and July 2011; while manufactured products contributed the most in terms of inflation in the months from December 2010 to April 2011 (Table 1.5).

Table 1.5: Month wise point contribution to Y-o-Y inflation in October

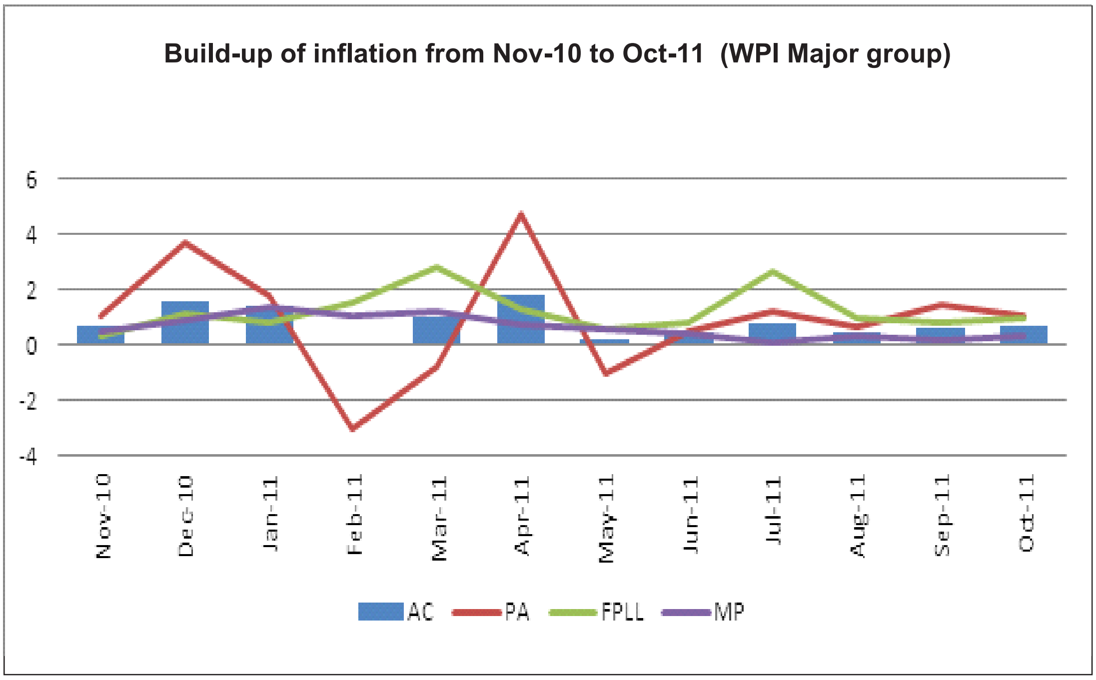
(in per cent)

	(Nov-09 to Oct-10)				(Nov-10 to Oct-11)			
	AC	**PA**	**FPLL**	**MP**	**AC**	**PA**	**FPLL**	**MP**
Weight (%)	**100.0**	**20.1**	**14.9**	**65.0**	**100.0**	**20.1**	**14.9**	**65.0**
Nov	1.51	4.36	1.02	0.58	0.66	1.07	0.36	0.48
Dec	0.39	0.40	0.23	0.50	1.59	3.73	1.15	0.88
Jan	1.40	1.79	0.62	1.40	1.43	1.77	0.78	1.34
Feb	0.00	-0.85	0.61	0.16	0.07	-3.01	1.55	1.09
Mar	0.85	1.51	2.67	0.08	0.99	-0.76	2.84	1.23
Apr	1.75	3.30	0.75	1.38	1.81	4.71	1.28	0.76
May	0.37	1.01	1.26	0.00	0.21	-1.00	0.60	0.61
Jun	0.52	2.12	0.29	-0.08	0.48	0.53	0.80	0.38
Jul	0.89	1.10	3.35	0.24	0.75	1.21	2.63	0.07
Aug	0.07	-0.30	0.14	0.16	0.47	0.62	0.96	0.30
Sep	0.66	2.12	-0.28	0.32	0.61	1.45	0.83	0.15
Oct	0.66	1.54	0.35	0.40	0.67	1.07	1.01	0.37
Y-o-Y inflation	**9.08**	**18.09**	**11.02**	**5.13**	**9.73**	**11.40**	**14.79**	**7.66**

AC: All Commodities, PA: Primary articles, FPLL: Fuel, power, lubricants and light, MP: Manufactured products

1.14 The monthly price increase in major groups within WPI indicates that headline trend is moderating since May 2011. From November 2010 to October 2011, four months (Dec-10, Jan-11, Mar-April 11) are main contributor to 9.73 per cent headline WPI inflation. The manufactured products price movement is also showing downward trends. This is mainly due to demand side steps taken by Government and RBI (Chart 1.1).

Chart 1.1 Build-up of inflation from Nov-10 to Oct-11.



1.15 Policy responses, described in more detail in Chapter 3, succeeded in holding inflation and moderating inflation expectations to below double-digit levels, although the Government's stated desire to bring it down quickly to more comfortable levels of 5-7 percent annualised levels were belied. To a great extent, India's persistently high inflation, marginally greater than other emerging market countries, whose inflation was also rising globally (from China, Brazil, Indonesia and Turkey, to much faster inflation in some countries such as Vietnam) has been due to an unusual combination of domestic factors and structural reasons. Domestic factors, particularly the level of agricultural output, have a bearing on supply response to arrest inflation.

D. Agriculture

Macroeconomic resilience is anchored on the agricultural sector performance

1.16 For the second consecutive year the country witnessed "normal" rainfall during South-west monsoon (June-September), 2011. At all India level the rainfall was 101 per cent of its Long Period Average (LPA), i.e. 899.9 mm against the LPA of 887.5 mm. However, there were regional variations in the rainfall with the Central India receiving 110 per cent of the LPA and North Eastern States receiving 86 per cent of the LPA. It may be instructive to note that in 2009-10 there was a 23 per cent deficiency in South west monsoon rainfall and that had its bearing on the level of growth in agriculture and allied sector growth rate, which was only 0.4 per cent in that year as per national accounts data. Following good monsoon in 2010-11, the agriculture and allied sector growth rebounded to 6.6 per cent. In 2011-12, growth in the first half is placed at 3.6 per cent compared to 3.7 per cent during the same period last year. This is noteworthy as it has been over a good base level of output. Given the compositional shift in the consumption demand structure in India owing to broad-based rise in incomes alluded to by the latest quinquennial round of the National Sample Survey Organisation (NSSO) to this effect, the level of agricultural output is critical to macroeconomic stability through augmented levels of supply of food items. The performance of the kharif output is the key driver of agriculture growth.

1.17 The kharif paddy area sown during the current year has been 15.12 lakh hectares higher than the last year (Table 1.6). However there is shortfall in area sown for kharif pulses and coarse cereals except maize which has the highest productivity amongst coarse cereals. In the case of oilseeds though the overall area sown has declined by 6.41 lakh hectare, there is increase in area sown in case of soybean, which has the highest productivity amongst kharif oilseeds, and also in castor seed compared to the last year. To some extent shortfall in area sown of foodgrains and oil seeds was compensated by higher area sown of cotton. This reflects some preference of the farmers for cash crops when there is uncertainty about rainfall.

1.18 The shortfall in area sown despite good monsoon owes to the relatively long dry spells within the season. The dry spells had both positive and negative impacts. On the positive side, the dry spells provided protection to crops already planted from pests and diseases. There were lesser incidents of pest infestations. This is expected to add to the productivity. But on the negative side, it led to shortfall in area sown. However the shortfall in area sown has been concentrated in areas mainly under coarse cereals and pulses, which have relatively low productivity. In sum, although the overall area sown during kharif 2011-12 has declined; no decline in foodgrain production is expected as shown in the following section. Further, adequate measures are being taken by the government to compensate the kharif season area sown shortfall by early plantation of rabi crops.

Table 1.6: Crop wise area sown during kharif 2011 in lakh hectares

Sl. No.	Crop	Area sown 2011-12	Area sown 2010-11	Increase/ decrease over last year (+/-)
Major cereal crops				
1	Paddy	394.71	379.59	15.12
Coarse cereals				
2	Jowar	26.82	30.84	-4.02
3	Bajra	83.93	94.3	-10.37
4	Maize	72.70	72.58	0.12
5	Ragi	12.99	13.17	-0.18
6	Small millets	5.90	6.48	-0.58
Total coarse cereals		**202.34**	**217.37**	**-15.03**
Pulses				
7	Arhar	38.56	44.18	-5.62
8	Urad	23.18	25.52	-2.34
9	Moong	23.00	28.67	-5.67
10	Others	23.66	25.84	-2.18
Total pulses		**108.4**	**124.21**	**-15.81**
Total foodgrains		**705.45**	**721.17**	**-15.72**
Oilseeds				
11	Groundnut	41.93	49.67	-7.74
12	Soybean	99.46	95.54	3.92
13	Sunflower	2.52	3.21	-0.69
14	Sesamum	17.04	20.79	-3.75
15	Nigerseed	3.35	3.89	-0.54
16	Castor seed	11.24	8.85	2.39
Total oil seeds		**175.55**	**181.95**	**-6.40**
Other crops				
17	Cotton	119.89	111.42	8.47
18	Sugarcane	50.26	49.44	0.82
19	Jute	8.12	7.68	0.44

Source: Department of Agriculture & Cooperation.

Agriculture production

Improved productivity driving agricultural production

1.19 As per the first advance estimates of kharif production for 2011-12 released by the Ministry of Agriculture on 14th September, 2011 the production of foodgrains, oilseeds and cotton is estimated to reach all time high levels of 123.95 million tonnes, 20.89 million tonnes and 36.10 million bales (of 170 kg each), respectively. The production of sugarcane during 2011-12 is estimated at 342.20 million tonnes which is higher than last year's sugarcane production of 339.17 million tonnes (Table 1.7). The higher production estimates of foodgrains compared to last year are primarily due to higher coverage of more productive crops (rice, maize, soybean, etc.) coupled with improvements in the productivity levels of major crops resulting from favorable weather condition, least incidence of pests & diseases and various initiatives taken by the Government to support the farming community.

Table 1.7: Kharif production in 2010-11 and 2011-12

(million tonnes)

Crops	2010-11 (4th advance estimates)	2011-12 (1st advance estimates)	Absolute difference (Col. 3-2)	Percentage change in 2011-12 over 2010-11
Foodgrains	120.20	123.95	3.75	3.12
Oilseeds	20.85	20.89	0.04	0.19
Sugarcane	339.17	342.20	3.03	0.89
Cotton @	33.43	36.10	2.67	7.99

@ Production in million bales of 170 kg each.
Source: Department of Agriculture & Cooperation.

1.20 As per the fourth advance estimates for 2010-11, foodgrains production was estimated at 241.56 million tonnes. It comprised 120.20 million tonnes of kharif foodgrains and 121.36 million tonnes of rabi foodgrains. Production of oilseeds was estimated at 31.10 million tonnes, sugarcane at 339.17 million tonnes and cotton at 33.43 million bales of 170 kg each in 2010-11. All India area, production and yield of major crops during 2008-09 to 2010-11 are given in Table 1.8.

Table 1.8: Area, production and yield of major Crops

Crops	Area (Lakh hectare)			Production (million tonnes)			Yield (kg/hectare)		
	2008-09	2009-10	2010-11*	2008-09	2009-10	2010-11*	2008-09	2009-10	2010-11*
Foodgrains	1228.32	1213.33	1257.25	234.47	218.11	241.56	1909	1798	1921
Oilseeds	275.58	259.59	268.24	27.72	24.88	31.1	1006	958	1159
Sugarcane	44.15	41.75	49.44	285.03	292.3	339.17	64553	70020	68596
Cotton@	94.07	101.32	111.42	22.28	24.02	33.43	403	403	510

**4th advance estimates.*
@- Production in million bales of 170 kg each .
Source : Department of Agriculture & Cooperation.

Minimum Support Prices

1.21 The Minimum Support Prices (MSPs) for major crops have been raised by the Government substantially in line with the objective of ensuring remunerative prices to farmers for their produce and with a view to energize higher investment and production in the sector (Table 1.9). This policy has also resulted in higher procurement of foodgrains by FCI and the State agencies. The procured foodgrains are being made available to the consumers at prices (Central Issue Price - CIP) much less than the economic costs to the procuring agencies. Needless to say, this policy puts substantial claims on the exchequer in the form of food subsidy provided to procuring agencies.

Table 1.9: Minimum Support Prices (Per quintal) **(in ₹)**

	2010-11	2011-12	Difference between 2011-12 and 2010-11 prices
Kharif crops			
Paddy (common)	1000	1080	80
Paddy (Gr.A)	1030	1110	80
Jowar (Hybrid)	880	980	100
Jowar (Maldandi)	900	1000	100
Bajra	880	980	100
Maize	880	980	100
Ragi	965	1050	85
Arhar (Tur)	3000*	3200*	200
Moong	3170*	3500*	330
Urad	2900*	3300*	400
Groundnut in shell	2300	2700	400
Sunflower	2350	2800	450
Soybean (black)	1400	1650	250
Soybean (yellow)	1440	1690	250
Sesamum	2900	3400	500
Nigerseed	2450	2900	450
Cotton (F-414/H-777/J34)	2500	2800	300
Rabi crops			
Wheat	1120**	1285	165
Barley	780	980	200
Gram	2100	2800	700
Masur (lentil)	2250	2800	550
Rapeseed/Mustard	1850	2500	650
Safflower	1800	2500	700

* *An additional incentive at the rate of ₹ 500 per quintal is also payable over the Minimum Support Price (MSP).*

** *An additional incentive bonus of ₹ 50 per quintal is payable over the Minimum Support Price(MSP).*

Source: Department of Agriculture and Cooperation.

Procurement, storage and distribution

1.22 A substantial part of India's foodgrains production is procured at the MSP fixed by the Government. The procured foodgrains are stored and distributed through Targeted Public Distribution System (TPDS), for other welfare schemes and through open market sales scheme. A noteworthy feature is that there has been a continuous increase in the procurement levels of foodgrains by the Government (Table 1.10).

Table 1.10: Procurement of rice and wheat

(in Lakh tonnes)

	Rice	Wheat
2007-08	287.35	111.28
2008-09	341.04	226.82
2009-10	320.34	253.82
2010-11	341.79 #	225.25
2011-12	97.90 *	281.44

Procurement figures as on 30.09.2011.

* Position as on 14.11.2011.

Source: Department of Food & Public Distribution.

1.23 The Central Pool of food stocks is required to have sufficient quantity of rice and wheat in order to meet emergencies like drought/failures of crop and to enable open market intervention in case of price rise. The minimum buffer norms for the Central Pool have been fixed by taking into consideration the seasonality in the arrival of the grains. Table 1.11 gives the minimum buffer norms and the position regarding actual stocks from 1.10.2010 till 1.10.2011. Besides the differential between procurement price and the CIP, maintaining stocks at much higher level than the buffer norm also adds to the food subsidy bill in the form of higher economic cost.

Table 1.11: Details of minimum buffer norms and actual stock position

(in Lakh Tonnes)

Date	Rice		Wheat		Total	
	Actual stock	Buffer norms	Actual stock	Buffer norms	Actual stock	Buffer norms
01.10.2010	184.44	72	277.77	140	462.21	212
01.01.2011	255.80	138	215.40	112	471.20	250
01.04.2011	288.20	142	153.64	70	441.84	212
01.07.2011	268.57	118	371.49	201	640.06	319
01.10.2011	203.59	72	314.26	140	517.85	212

Source: Department of Food & Public Distribution.

1.24 An effective, efficient and timely system of release of the procured foodgrains to the market is *sine qua non* not only for containing the food subsidy bill but also for managing the food price situation. The Government has already announced the enactment of the National Food Security Act as a priority. The proposed legislation would be a paradigm shift in approach towards food security. The draft Bill proposes to ensure that the poor and vulnerable have access to certain basic food items and further that this be a legally mandated right.

Agriculture Credit

Enabling farmers to deliver higher output

1.25 Given the importance of credit for the agriculture sector, it has been the endeavor of the government to ensure timely availability of agricultural credit in adequate measure at an affordable cost to farmers. Agricultural credit flow as at the end of July, 2011 stood at approximately 30 per cent of the target for 2011-12 (Table 1.12). The Kisan Credit Cards (KCC) Scheme introduced in August 1998 has since stabilized, with a major share of crop loans being routed through it. By the end of May 2011, a total of approximately 10.42 crore KCCs have been issued cumulatively by commercial banks, cooperative banks, and regional rural banks with the sanctioned amount of ₹ 5,02,987 crore since inception. The Government has directed the banks to issue Kisan Credit Card to all eligible farmers.

Table 1.12: Target and Achievement of Credit Flow to Agriculture Sector, 2011-12

(in ₹ crore)

Credit flow in 2011-12			
Agency	**Target(2011-12)**	**Achievement (as on 31 July 2011)**	**% achievement**
Commercial Banks	3,55, 000	93,572.14	26.36
Cooperative Banks	69,500	30,848.16	44.39
Regional Rural Banks	50,500	16,402.40	32.48
Total	**4,75,000**	**1,40,822.70**	**29.65**

Source: National Bank for Agriculture and Rural Development (NABARD).

E. Industry and Infrastructure

Slowdown prolonged and sharper; a cause for concern

1.26 During the first half of the current financial year, the growth in the Index of Industrial Production (IIP) was 5 per cent as compared to 8.2 per cent achieved during the same period of 2010-11. The IIP grew by a moderate 7.0 per cent in the first quarter and decelerated further during the second quarter (July-September) to 3.1 per cent. Mining and manufacturing sectors output remained subdued due to multiple factors. The sharper deceleration during the second quarter was partly due to seasonal variations and supply side constraints as production of coal and natural gas during April-September 2011 had declined by 4.8 per cent and 8.5 per cent respectively. Comparatively lower output of coal and natural gas impacted production in the other sectors. Mining index declined from 151 in April 2011 to 111 in September 2011 (Table 1.13). The performance of core infrastructure industries, which have a weight of 37.9 per cent in the IIP, also remained subdued with 4.3 per cent growth rate during April-October 2011 compared to the 5.9 percent in the same period of 2010-11.

Table 1.13 : Growth in broad industrial groups based on IIP (Base 2004-05=100)

(per cent)

Period/quarter	Mining	Manufacturing	Electricity	General
Weight	141.57	755.27	103.16	1000.00
Q1 2009-10	6.2	-3.7	6.1	-1.8
Q2	7.2	1.8	7.4	2.9
Q3	7.5	6.1	3.8	6.1
Q4	10.3	15.4	7.1	14.0
Q1 2010-11	8.0	10.4	5.4	9.6
Q2	6.3	7.4	2.1	6.8
Q3	6.3	9.2	6.5	8.6
Q4	1.0	8.9	8.1	7.9
Q1 2011-12	0.7	7.7	8.2	7.0
Q2	-2.7	3.1	10.5	3.1
April-Sep 10-11	7.2	8.8	3.8	8.2
April-Sep 11-12	**-1.0**	**5.4**	**9.4**	**5.0**

Source: Central Statistics Office.

1.27 The slowdown in the manufacturing sector, which was estimated to be of a short duration by the Economic Survey 2010-11 has not only been prolonged and appear to be sharper than initially estimated. It has spilled over into the second quarter with growth at 3.1 per cent as against 7.7 per cent in the first quarter of the current financial year (Table 1.14). Within the manufacturing sector, the output of textile products, wood products, chemical and chemical products, rubber and plastic products, machinery and equipments, and electrical machinery and equipments had contracted during the first half of the current financial year. The intermediate goods sector registered 1.4 per cent incresase during April-September 2011 compared with the robust 8.4 per cent growth during the save period of the previous year. The combination of factors such as slowdown in demand, increasing competition from imports in some sectors, lower investment and higher inputs and borrowing costs have been responsible for lower output of these segments. As per the Capacity Utilization Survey conducted by RBI, new orders and capacity utilisation had been lower in first quarter of 2011-12 in particular in basic, metals, textiles, machinery and equipment, food products, and motor vehicles industries.

Table 1.14:Growth in use-based industrial groups based on IIP (Base 2004-05=100)

(per cent)

Period/quarter	Basic goods	Capital goods	Intermediate goods	Total	Consumer goods Durables	Non-durables	General Index
weight	456.82	88.25	156.86	298.08	84.6	213.47	1000
Q1 2009-10	3.3	-16.5	-1.1	-1.6	3.7	-5.1	-1.8
Q2	3.4	-6.0	4.8	5.9	9.3	3.4	2.9
Q3	5.0	-2.5	8.8	10.5	26.2	0.8	6.1
Q4	7.3	34.0	11.8	15.9	30.5	6.7	14.0
Q1 2010-11	5.5	17.2	10.7	11.5	19.7	5.4	9.6
Q2	3.9	15.8	6.3	6.6	12.4	2.1	6.8
Q3	7.8	22.1	7.4	4.4	9.7	0.3	8.6
Q4	6.6	5.8	5.5	11.6	15.2	8.8	7.9
Q1 2011-12	7.5	17.0	1.8	4.5	2.7	5.9	7.0
Q2	6.4	-5.9	0.9	4.5	7.8	1.6	3.1
April-Sep 10-11	4.7	16.4	8.4	9.1	15.9	3.8	8.2
April-Sep 11-12	**6.9**	**4.6**	**1.4**	**4.5**	**5.2**	**3.8**	**5.0**

Source: Central Statistics Office.

1.28 During the recent phase of deceleration, within the capital goods sector, vulnerability of two segments, namely, machinery and equipment, and electrical machinery and apparatus is noticeable. The contraction of 2.1 per cent and 3.8 per cent in these two sub-sectors during the first half along with their increasing imports is a matter of some concern. Slowdown in infrastructure sector investments, inability to achieve capacity addition targets in the power sector and issues related to land acquisition and environmental clearances have all affected the capital goods sector.

1.29 There had been some positive indicators too. The basic goods and consumer durable sectors had shown resilience during the first half of the current fiscal. At 2-digit level, the output growth rates had been remarkable during the first half of the current financial year in food products and beverages (16 per cent), basic metals (14.2 per cent), fabricated metal products other than machinery and equipment (14.1 per cent), office, accounting and computing machinery (13.1 per cent), motor vehicles (13.7 per cent) and other transport sector (17.6 per cent).

Capacity addition in major infrastructure sectors during first half of 2011-12

A mixed bag of outcomes in core and infrastructure industries

1.30 Power Sector: During April – October 2011-12, capacity addition of 7501 MW had been achieved in the sector against the target of 17,601 MW for the year. The target for April-September 2011 was 7743 MW, out of which, 24 percent was to be added in the Central Sector, 35 percent in the State Sector and the remaining 41 percent in the Private Sector. The total annual capacity addition of 77 per cent was planned in the thermal sector. During April-September 2011, about 92 percent of the targeted capacity addition was achieved. While Central and State sectors fell short of their target by about 8.5 percent and 43.5 percent respectively, private sector had overachieved its target by about 23.4 percent. In electricity generation, during April-October, 2011, there had been an increase of 8.64 per cent as compared to 4.68 per cent during the corresponding period of 2010-11. Rural electrification under the Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY) has proceeded apace. So far the Ministry of Power has sanctioned 578 projects in 546 districts targeting electrification of 1,09,963 villages and provided free electricity connections to 2.26 crore BPL rural households. As on 31 October 2011, electrical works in 99,470 villages have been electrified and 173.79 lakh free electricity connections have been released to BPL household. The target is to complete all the sanctioned projects before March 2012.

1.31 Railways- Traffic: The total approximate number of passengers booked during April-September, 2011 was approximately 4120.75 million (provisional) compared to 3906.95 million during the same period last year, showing an increase of 5.47 per cent. Freight loading in Indian Railways is primarily dependent on the growth of the economy, especially the growth in the core sectors. The freight loading target for Indian Railways in the year 2011-12 has been fixed at 993 MT. The targeted growth in freight loading is 7.76 per cent as against which the growth in freight loading has been 4.80 per cent in the first six months of 2011-12 (April-September). The incremental loading up to September 2011 has been 21.03 MT. Up to July 2011, the growth in freight loading was 7.11 per cent but growth dropped substantially in August and September 2011. This has been primarily due to substantial drop in loading of coal on account of continuous law and order problem in the coal fields of North Karanpura (CCL) and Talcher (MCL) and lack of transportation from pithead to Railway sidings in all collieries. In case of Iron ore, continuing ban on export of iron ore in Karnataka and Bellary district for all ores and cumbersome process of obtaining clearance has led to a decline in export ore loading by 41.76 per cent. For all Iron ore including that for export, growth in loading has been (-) 5.72 per cent. Loading of steel, cement and container have been affected due slowdown in demand. Fertilizer loading was less on account of less imports due to high international prices.

1.32 Revenue Earnings**:** During April-September 2011, the total approximately earnings of Indian Railways on originating basis during April–September 2011 were ₹48,947.17 crore compared to ₹ 44,337.86 crore during the same period last year, registering an increase of 10.40 per cent. Total goods earnings increased from ₹ 29,448.55 crore during April–September 2010 to ₹ 32,439.00 crore during April–September 2011, indicating an increase of 10.15 per cent. Total passenger revenue earnings during first six months of the financial year 2011-12 were ₹ 14,017.69 crore as compared to ₹ 12,688.79 crore during the same period last year, registering an increase of 10.47 per cent.

1.33 Railway Electrification: 3500 Route km (RKM) of the Railway network was targeted for electrification during the XIth Five Year Plan period (2007-2012). This target was reset to 4500 RKM in Mid Term Appraisal of the Plan. In the first four years of the XIth Plan, 3391 RKM have been electrified. To achieve the revised target of 4500 RKM, 1110 RKM have been targeted for electrification during last year of the XI plan (2011-12). During the first half of 2011-12 (up to September 2011), 288 RKM and 176 Tonne -Kilometer (TKM, which *includes sidings, doubling etc. in which RKM component is nil)* have been energized.

1.34 National Highways: The National Highways Authority of India (NHAI) had completed the widening and strengthening work of 690 kms up to September 2011 as against the target of 1005 kms for the period. NH (O) and Border Road Development Board (BRDB) has completed the strengthening and widening work in 654 kms as against the target of 952 kms (Table 1.15). All these organization have been able to utilize about 70 per cent of the budgetary provisions up to September 2011.

Table 1.15 : Performance of roads sector

	Target (April-Sept 2010)	Actual (April-Sept 2010)	Target (April-Sept 2011)	Actual (April-Sep 2011)	Change (in percent)
Widening and strengthening of highways by NHAI (kms)	947	692	1005	690	(-) 0.28
Widening and strengthening of highways by NH (O) & BRDB (kms)	786	995	952	654	(-) 34.27
Total expenditure (NHAI) (₹ in crore)	16,523.96	7389.91	17145.00	1,2422.00	68.09
Total expenditure - NH(O) & BRDB (₹ in crore)	1456.79	1627.73	2000.00	1266.26	(-) 22.20

Source: Ministry of Road Transport and Highways (MoRT&H)

1.35 Civil Aviation Sector: Air traffic in India continues to register higher rates of growth on top of significant growth rates witnessed during the last seven years (18.5 per cent). Domestic passenger traffic handled at Indian Airports increased to 59 million during April–September 2011 from a level of 50 million during corresponding period in the last year registering a growth of 18 per cent. However, such high growth rates of the aviation sector are not getting reflected in the financial health of the Carriers in India. Airline operations in India are reported to have incurred losses in the last two quarters. High operating cost environment owing to high and rising cost of Aviation Turbine Fuel coupled with rupee depreciation is making operations unviable for Carriers in India. Given the intense competition in the market coupled with growth in capacity deployment during the last two years and the cost push factors at play as explained above, operations of airlines are not becoming viable. Execution of infrastructure projects relating to airport and Air Navigation Systems is on schedule. To strengthen the regulatory framework pertaining to safety and security a number of measures have been initiated which include augmentation of human resources on a priority basis. Setting up of National Aviation University, provision of Remote Area Connectivity through Essential Air Services Fund are some of the New initiatives proposed for inclusion in the 12th Five Year Plan.

1.36 The approved plan outlay of the Civil Aviation Sector for 2011-12 is ₹9071.56 crore including budgetary support of ₹1700.00 crore. Out of this approved plan outlay, ₹2774.15 crore has been earmarked for investment in infrastructure development of airports in the country and ₹5749.36 crore mainly to pursue the aircraft acquisition programme of Air India Ltd. The balance amount of the approved plan outlay has been earmarked for the other organizations under the Ministry of Civil Aviation including two regulatory authorities namely, Directorate General of Civil Aviation and Bureau of Civil Aviation Security. Towards discharging the functions entrusted to Airports Economic Regulatory Authority, as embodied in the AERA Act, AERA has issued the guidelines on stakeholder consultation and framed its Regulatory Philosophy, Approach, Systems & Procedures for determination of aeronautical charges for major airports. 'In-principle' approval for setting up of a Greenfield international airport at Kakdi village, Taluka, Kopargaon near Shirdi in Ahmednagar district, Maharashtra under 'public use' was accorded on 12.5.2011.

1.37 Telecommunications Sector: The telecom sector has shown robust growth during the past few years. It has emerged as a key driver of economic and social development of the a country. It has also undergone a substantial structural change in terms of wireless versus wireline phones and public versus private participation. Having registered over 899.8 million connections at the end of August 2011, the country is poised to soon cross the one billion mark. As the wireless industry is witnessing explosive growth in the demand for both voice and data services, the number of mobile telephone subscribers have also grown considerably. Consequently, the Service providers have been upgrading their networks with advanced technologies to meet this growing demand for high quality voice and data services.

1.38 The number of telephone connections has increased from 205.87 million as on 31 March 2007 to 846.33 million as on 31 March 2011 and further to 899.79 million as on 31 august 2011, exhibiting a compound annual growth rate (CAGR) of 39.5 per cent from the March 2007. Wireless subscribers increased from 166.05 million as on 31 March 2007 to 811.60 million as on 31 March 2011 and further to 865.72 million as on 31 August 2011, exhibiting a CAGR of 45.3 per cent from the March 2007. The total FDI equity inflows in the telecom sector have been US$ 1874 million during 2011-12 (April-August).

1.39 Shipping: During the current financial year so far, the Ministry of Shipping has awarded 4th Container Terminal of Jawaharlal Nehru Port and a decision has been taken to have one more port in each of the maritime States. Customs website interface with Electronic Data Interchange-Port Community System (EDI-PCS) has also been installed. Several projects of Public Private Partnership (PPP) have been initiated including Kandla Port (Indian Maritime University (IMU)) Campus.

Industrial and Investment Financing

Overall financing on even keel; compositional shifts evident

1.40 The total flow of financial sources to commercial sector during April-September 2011 has been higher as compared to the same period of previous financial year. Even though the flow of adjusted non-food credit during the period has been lower, the shortfall was made up by the increase in the flow of resources from non-bank sources. Despite overall increase in the flow of resources, the share of industry vis-â-vis the other sectors of the economy in gross non-food credit deployed during April-September 2011 has declined. Within the industrial sector, credit flow has been lower to chemical and chemical products; cement; petroleum, coal products, nuclear fuels; paper and paper products segments. Sector wise, there has been substantial jump in the flow of credit to medium scale industries as compared to large scale and small scale industries.

1.41 Gross bank credit flow to infrastructure had also been significantly lower at ₹ 95,337 crore during April-September 2011 as compared to ₹ 150,990 crore during the same period of 2010 (Table 1.16). In order to ensure increased flow of funds to infrastructure, the government has notified guidelines for setting up an Infrastructure Debt Fund to attract new sources of long-term providers of debt. RBI, in consultation with the Government of India, has rationalised and liberalized the external commercial borrowings (ECB) policy during the current financial year. The revised policy guidelines have enhanced the limit under automatic route. Indian companies in the infrastructure sector have been allowed to import capital goods by availing of short term credit (including buyers'/suppliers' credit) in the nature of 'bridge finance', under the approval route, subject to certain conditions. Indian companies which are in the infrastructure sector, can also avail of ECBs in Renminbi (RMB), under the approval route, subject to an annual cap of USD one billion pending further review. RBI has further liberalized the policy relating to

Table 1.16: Industry-wise deployment of gross bank credit

			Annual Variation			(₹ crore)
			Variation			
Sector	Outstanding as on Sep 23, 2011	per cent share	Sep 2010 /Sep 2009 Abs	Sep 2010 /Sep 2009 per cent	Sep 2011 /Sep 2010 Abs	Sep 2011 /Sep 2010 per cent
Non-food gross bank credit	3,796,893	100	504987	18.7	597742.0	18.7
Mining & Quarrying (incl. Coal)	27,510	0.7	3,855	25.3	8389.0	43.9
Food Processing	85,516	2.2	14,047	26.0	17363.0	25.5
Beverage & Tobacco	13,602	0.3	140	1.4	3263.0	31.6
Textiles	145,482	3.8	17,544	16.5	21718.0	17.5
Leather & Leather Products	7,847	0.2	351	5.6	1218.0	18.4
Wood & Wood Products	6,068	0.1	594	13.6	1102.0	22.2	
Paper & Paper Products	23,424	0.6	3,783	23.4	3455.0	17.3	
Petroleum, Coal Products & Nuclear Fuels	64,062	1.6	-13,639	-19.3	6964.0	12.2
Chemicals & Chemical Products	96,670	2.5	11,700	15.3	8322.0	9.4
Rubber, Plastic & their Products	24,635	0.6	4,294	30.4	6218.0	33.8
Glass & Glassware	5,652	0.1	647	15.0	693.0	14.0
Cement & Cement Products	32,915	0.9	6,312	28.4	4345.0	15.2
Basic Metal & Metal Product	230,161	6.1	30,954	21.3	53855.0	30.5
All Engineering	101,632	2.7	18,073	27.8	18645.0	22.5
Vehicles, Vehicle Parts & Transport Equipment	50,097	1.3	4,455	12.2	9182.0	22.4
Gems & Jewellery	46,786	1.2	3,428	11.2	12824.0	37.8
Construction	50,977	1.3	4,748	12.5	8316.0	19.5
Infrastructure	564,958	14.9	150,990	47.4	95337.0	20.3
Other Industries	164,170	4.3	15,550	14.8	43756.0	36.3
Industries	1,742,164	45.9	277,826	24.4	324965.0	22.9
Micro and small industries	242,991	6.4	28,521	15.4	29250.0	13.7
Medium	195,666	5.2	18,442	14.2	46898.0	31.5
Large	1,303,507	34.3	230,863	28.0	248817.0	23.6

Source: RBI

structured obligations and to permit direct foreign equity holder(s) as per extant ECB guidelines (minimum holding of 25 per cent of the paid up capital) and indirect foreign equity holders, holding at least 51 per cent of the paid-up capital, to provide credit enhancement to Indian companies engaged exclusively in the development of infrastructure and by infrastructure finance companies (IFCs), which have been classified as such by the RBI.

MONEY, BANKING AND FINANCIAL MARKETS

Shift in policy stance and precedence to controlling inflation

1.42 The monetary policy stance in 2010-11 was calibrated to support consolidation of growth even as it addressed inflationary concerns. However, inflationary pressures intensified in the fourth-quarter of 2010-11 even as the growth process showed visible signs of moderation. The accentuating inflationary pressures and elevated inflationary expectations posed significant risk to sustaining medium term growth. Containing the high inflationary pressures effectively and swiftly, therefore, had become necessary. Hence, towards the end of 2010-11 monetary policy gave precedence to containing inflation and inflationary expectations.

1.43 The Annual Policy Statement for 2011-12 of the Reserve Bank of India was set against the backdrop of a sharp rise in inflation and elevated inflationary expectations. Although the trigger was the sharp uptrend in international commodity prices, with demand remaining strong, the sharp rise in input cost were quickly passed on to domestic manufactured goods resulting in generalised inflationary pressures. The baseline projection for WPI inflation for March 2012 was placed at 6 per cent with an upward bias. Headline inflation was expected to remain at an elevated level in the first half of the year due to expected pass-through of increase in international petroleum product prices to domestic prices and continued pass-through of high input prices into manufactured products. There were visible signs of moderating growth, particularly in capital goods production and investment spending, suggesting that cumulative monetary actions are beginning to have an impact on demand.

1.44 The RBI's monetary policy aimed at (i) maintaining an interest rate environment that moderates inflation and anchors inflation expectations (ii) fostering an environment of price stability that is conducive to sustaining growth in the medium-term coupled with financial stability; and (iii) managing liquidity to ensure that it remains broadly in balance, with neither a large surplus diluting monetary transmission nor a large deficit choking off fund flows.

1.45 The Annual Policy Statement also saw changes in the extant operating procedures of monetary policy effective May 3, 2011. First, the repo rate was made the only one independently varying policy rate to transmit policy signals more transparently. Second, a new Marginal Standing Facility (MSF) was instituted under which scheduled commercial banks (SCBs) can borrow overnight at their discretion up to one per cent of their respective net demand and time liabilities (NDTL) at 100 basis points above the repo rate to provide a safety valve against unanticipated liquidity shocks. Third, the revised corridor was defined with a fixed width of 200 basis points. The repo rate was placed in the middle of the corridor, with the reverse repo rate 100 basis points below it and the MSF rate 100 basis points above it. The fixed interest rate corridor set by MSF rate and reverse repo rate, by reducing uncertainty and avoiding communication difficulties associated with a variable corridor was expected to help keep the overnight average call money rate close to the repo rate.

1.46 On the basis of its policy stance and changes made in operating procedures, the repo rate was raised by 50 basis points from 6.75 per cent to 7.25 per cent (May 3, 2011). With inflation remaining high and much above the comfort zone of the Reserve Bank, in the Mid-quarter review on June 16, 2011 the repo rate was further increased by 25 basis points to 7.50 per cent. In the First-Quarter Review for 2011-12 taking into account the persistence of generalised inflationary pressures in the economy and the risk of medium-term inflation expectations becoming unanchored, the key policy rate was increased by 50 bps to 8.0 per cent (July 26, 2011) . The RBI in its mid-quarter review of September 16, 2011, continued with the anti-inflationary monetary policy stance and the repo rate was increased by 25 basis points to 8.25 per cent. The repo rate was further increased by 25 basis points to 8.50 per cent (October 25, 2011). A announcement was made to the effect that if actual inflation path remained close to the projected trajectory, the chances of further rate increases were seen to be low. The calibrations of the repo rates were based on broad projections for macroeconomic indicators (Table 1.17).

Table 1.17 : Indicative Projections of Macro-parameters for 2011-12 by the RBI (per cent)

	Annual Policy 2011-12 (May 3, 2011)	First Quarter Review (July 26, 2011)	Second Quarter Review (October 26, 2011)
GDP Growth	8.0	8.0	7.6
WPI Inflation	6.0	7.0	7.0
Money Supply Growth (M3)	16.0	15.5	15.5
* Adjusted non-food credit Growth	19.0	18.0	18.0

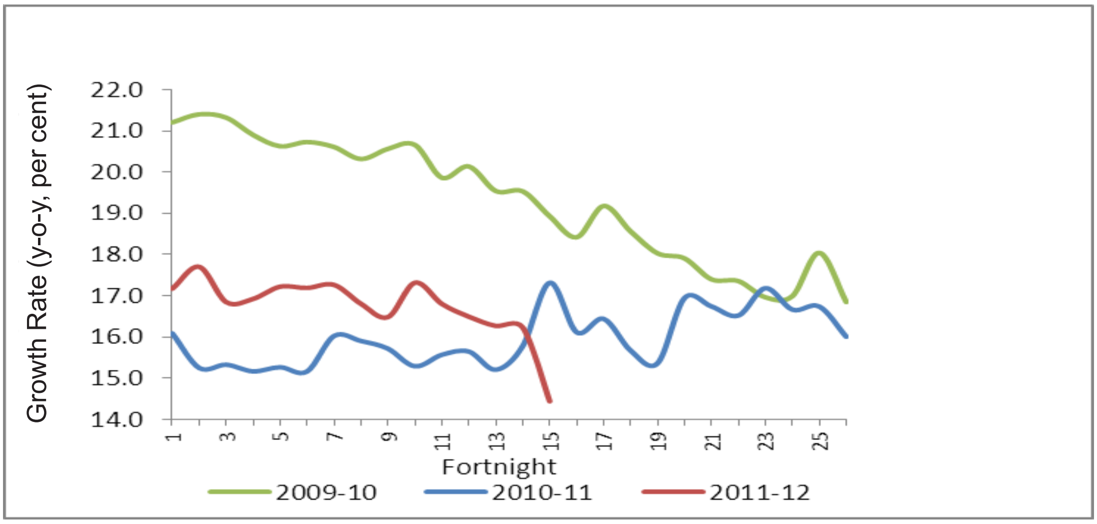
* *Includes investment by scheduled commercial banks (SCBs) in bonds/debentures/shares of public-sector undertakings, private corporate sector and commercial paper*

Reflecting the impact of the tightening stance, growth in monetary indicators was subdued.

1.47 Reserve Money (M_0): Reserve Money in 2011-12 so far has been lower than in 2010-11. During the First Quarter of 2011-12, M_0 increased by 16.0 per cent on a year on year basis as against an increase of 23.4 per cent in the corresponding quarter of 2010-11. In the Second Quarter, growth in M_0 was 15.4 per cent as against growth of 21.7 per cent recorded during the Second Quarter of 2010-11. On a financial year basis, M_0 had decreased by 1.6 per cent during the period April to end September 2011, as against an increase of 1.6 per cent a year ago. During the financial year so far (up to October 28, 2011), Reserve Money has increased by 0.6 per cent compared with increase of 7.9 per cent for the corresponding period of the previous financial year. Movements in the Reserve Bank of India's net credit to the Central Government during 2011-12 so far largely reflects the liquidity management operations of the Reserve Bank of India and the Central Government's cash balance position with the Reserve Bank. The government has mostly resorted to ways and means advances/overdraft in 2011-12 so far.

1.48 Broad Money (M_3): During 2011-12, in the first two quarters, broad money growth remained above the levels in the corresponding period of the preceding year. At the end of the First Quarter of 2011-12, year-on-year growth in M_3 was 17.2 percent as against an increase of 15.2 per cent in the First Quarter of 2010-11. At the end of the Second Quarter, growth in M_3 on year-on-year basis, was 16.3 per cent as against 15.2 percent growth recorded in the Second Quarter of 2010-11 (Chart 1.2). Much of the expansion in Broad Money (M_3) during the financial year 2011-12 (up to October 21, 2011) resulted from the increase in deposit mobilisation following the strong growth in interest rates in response to the steady increase in policy rates.

Chart 1.2 Broad Money Growth



1.49 Bank credit: Disaggregated data on sectoral deployment of gross bank credit available up to September 23, 2011 show that barring the agriculture and allied sector and industry, personal loans and services sector recorded acceleration in growth of credit (Table 1.18).

Table 1.18 : Growth in Sectoral Deployment of Bank Credit (year-on-year)

Sr. No	Sector	Year-on- year variation (percent) 24 September 2010	25 September 2011
	Non-food gross bank credit(1 to 4)	18.7	18.7
1.	Agriculture and allied activities	19.3	7.9
2.	Industry	24.4	22.9
3.	Personal Loans (a to e)	8.6	15.2
	a. Housing	10.4	15.7
	b. Advances against fixed deposits	13.7	17.5
	c. Credit card outstanding	-23.7	2.2
	d. Education	23.6	18.1
	e. Consumer durables	12.5	-6.5
4.	Services (f to j)	17.4	19.3
	f. Transport operators	37.5	24.1
	g. Professional services	15.9	11.5
	h. Trade	10.6	9.1
	i. Real estate	7.9	12.6
	j. Non-banking financial companies	18.5	46.2
A.	Priority sector	19.1	11.1

Source: RBI

1.50 Policy rates/ interest rates: Since the exit from its crisis driven expansionary monetary policy stance, the Reserve Bank has raised the policy rate (the repo rate) 13 times by 375 basis points (since February 2010). Till March 2011, the policy rate was raised eight times by 200 basis points. In 2011-12 so far (up to October 25, 2011) it was further raised five times by 175 basis points. The cash reserve ratio (CRR) was also raised by 100 basis points (Table 1.19).

Table 1.19: Revision in policy rates

(per cent)

Effective Date	Repo	Reverse Repo	Cash Reserve Ratio	Statutory Liquidity Ratio
1	2	3	4	5
5-Jan-09	5.50	4.00	5.50	24.0
17-Jan-09	5.50	4.00	5.00	24.0
4-Mar-09	5.00	3.50	5.00	24.0
21-Apr-09	4.75	3.25	5.00	24.0
7-Nov-09	4.75	3.25	5.00	25.0
13-Feb-10	4.75	3.25	5.50	25.0
27-Feb-10	4.75	3.25	5.75	25.0
19-Mar-10	5.00	3.50	5.75	25.0
20-Apr-10	5.25	3.75	5.75	25.0
24-Apr-10	5.25	3.75	6.00	25.0
2-Jul-10	5.50	4.00	6.00	25.0
27-Jul-10	5.75	4.50	6.00	25.0
16-Sep-10	6.00	5.00	6.00	25.0
2-Nov-10	6.25	5.25	6.00	25.0
18-Dec-10	6.25	5.25	6.00	24.0
25-Jan-11	6.50	5.50	6.00	24.0
17-Mar-11	6.75	5.75	6.00	24.0
3-May-11	7.25	6.25	6.00	24.0
16-Jun-11	7.50	6.50	6.00	24.0
26-Jul-11	8.00	7.00	6.00	24.0
16-Sep-11	8.25	7.25	6.00	24.0
25-Oct-11	8.50	7.50	6.00	24.0

Source: RBI

1.51 During June to October 2011, banks increased their deposit rates across all maturities, with the sharpest rise in maturities up to 1 year for all categories of banks. The increase in modal deposit and base rates for the quarter was about 40 bps and 75 bps, respectively (Table 1.20).

Table 1.20 : Deposit and lending rates of banks

(per cent)

Interest Rates	Sep-10	Dec-10	Mar-11	Jun-2011	Oct-11
I. Term Deposit Rates					
Public Sector Banks					
a) Up to 1 year	1.00-7.00	1.00-8.25	1.00-9.75	1.00-9.15	1.00-9.55
b) 1 year up to 3 years	6.75-7.75	7.00-8.50	8.00-9.75	8.25-9.75	8.55-9.75
c) Over 3 years	7.00-7.75	7.00-8.75	7.75-9.75	8.00-9.75	8.00-9.50
Private Sector Banks					
a) Up to 1 year	2.50-7.25	2.50-8.50	2.50-9.30	2.50-9.30	3.00-9.40
b) 1 year up to 3 years	6.50-8.25	7.25-9.00	7.75-10.10	8.00-10.50	8.00-10.50
c) Over 3 years	6.50-9.00	7.00-9.25	7.00-10.00	8.00-10.00	8.00-10.00
Foreign Banks					
a) Up to 1 year	1.25-7.30	1.25-8.00	2.30-9.00	2.50-9.25	3.00-10.00
b) 1 year up to 3 years	3.00-8.00	3.50-8.50	3.50-9.10	3.50-10.00	3.50-9.75
c) Over 3 years	3.00-8.25	3.50-8.50	3.50-9.10	3.50-9.50	4.25-9.50
II. Base Rate					
Public Sector Banks	7.50-8.25	7.60-9.00	8.25-9.50	9.25-10.00	10.00-10.75
Private Sector Banks	7.00-8.75	7.00-9.00	8.25-10.00	8.50-10.50	9.75-11.00
Foreign Banks	5.50-9.00	5.50-9.00	6.25-9.50	6.25-9.50	6.25-10.75
III. Median Lending Rate*					
Public Sector Banks	7.75-13.50	8.75-13.50	8.88-14.00	9.50-14.50	-
Private Sector Banks	8.00-15.00	8.25-14.50	9.00-14.50	9.25-15.00	-
Foreign Banks	7.25-13.00	8.00-14.50	7.70-14.05	7.70-14.50	-

*: *Median range of interest rates at which at least 60 per cent of business has been contracted*

-: *Not available*

Note: Bank group-wise variations in deposit/lending interest rates worked out from the table would differ from those reported in the text as the latter are based on bank-wise and tenor-wise variations in deposit interest rates and bank-wise variation in case of lending rates .

Source: RBI

1.52 Deregulation of Savings Bank Deposit Rate: The RBI's Second Quarter Review also announced the deregulation of the saving bank deposit rates whereby banks are allowed to freely determine their savings bank deposit interest rate, subject to the following two conditions:

- Each bank will have to offer a uniform interest rate on savings bank deposits up to Rs.1 lakh, irrespective of the amount in the account within this limit.
- For savings bank deposits over Rs. 1 lakh, a bank may provide differential rates of interest, if it so chooses. However, there should not be any discrimination from customer to customer on interest rates for similar amount of deposit.

The RBI's monetary policy stance had its impact on the level of interest rates in the financial markets.

Financial markets

Money market

Orderly conditions in money markets reflected the monetary policy stance

1.53 The money market has remained orderly during 2011-12 so far. The RBI has actively managed liquidity in a manner as to ensure that it remains broadly in balance. Consistent with RBI's anti-inflationary stance, liquidity was kept in deficit mode since early 2010. Briefly, at the commencement of the current financial year, the liquidity adjustment facility (LAF) window was in the absorption mode. This was mainly on account of substantial cash surpluses maintained by banks as part of their year-end adjustments and the transit in Centre's balance from surplus to Ways and Means Advance (WMA). The key short-term rate, viz call money rate declined at the commencement of the current financial year, with the improvement in liquidity conditions.

1.54 The liquidity conditions reverted to deficit mode from the second week of April 2011. However, the average daily net outstanding liquidity injection declined significantly during the month on account of high WMA /Overdraft (OD) availed by the Central Government in comparison with the previous month. The operating procedure on Monetary Policy was changed on May 3, 2011 as indicated earlier. The seasonal stress in the liquidity conditions increased in June 2011 on account of quarterly advance tax outflows. The call rate increased thereafter reflecting tightening of liquidity conditions and hike in the policy rates; and it generally hovered around the repo rate during the first quarter of the financial year. The injection of liquidity under the MSF, since its introduction in May 2011, has been limited to two occasions (₹ 100 crore on June 10 and ₹4,105 crore on July 15, 2011).

1.55 Driven by the levels of WMA/OD of the Centre and seasonal factors like advance tax collections, net injection of liquidity alternated from higher to moderate conditions in the second quarter. The call rate increased further and continued to hover around the repo rate during the second quarter reflecting the above as well as the successive hikes in policy rates by the RBI. It averaged 7.86 per cent in the second quarter as compared to 7.04 per cent in the first quarter of the financial year 2011-12.

1.56 The rates in the collateralized segments, namely collateralised borrowing and lending obligation (CBLO) and the market repo have moved in tandem with the call rate, but generally remained below it. The transaction volumes in the collateralized segments have remained high, reflecting active market conditions. Banks and primary dealers remained the major groups of borrowers in the collateralized segments, while the Mutual funds (MFs) followed by banks continued to be the major group of lenders in these segments. The share of MFs in the total lending has declined significantly (to below 50 per cent) in the recent months. The collateralized segment continued to remain the predominant segment of the overnight money market, accounting for more than 80 per cent of the total volume.

1.57 Treasury Bills: Treasury bill cut off yields hardened considerably in 2011-12. Monetary policy tightening and liquidity shortage weighed on the yields during the year. While the yields increased across tenors, the Treasury Bill yield curve became flatter as the increase was more prominent in respect of 91-day treasury bills (Table 1.21).

Table 1.21: Average implicit yield of T-Bills in the primary market

(per cent)

Month-end	91-Day	182-Day	364-Day
2010-11	6.14	6.47	6.66
2011-12			
Apr-11	7.36	7.61	7.67
May-11	8.06	8.24	8.25
Jun-11	8.21	8.19	8.32
Jul-11	8.21	8.23	8.37
Aug-11	8.35	8.43	8.24
Sep-11	8.41	8.42	8.40
Oct-11	8.55	8.66	8.60
Nov -11 (up to Nov 14)	8.74	8.95	8.74

Source: DMO, Min. of Finance

1.58 Government Securities Market**:** The Central Government completed a large part (75.5 per cent) of its budgeted gross market borrowing programme during April-November 2011 (up to November 14). The market borrowing programme was increased by ₹53, 000 crore, while announcing the calendar for the second half of the year, due to likely shortfall in other financing sources particularly small savings. The yields on government securities during the year were influenced by monetary policy tightening, inflation concerns and supply factors. Issuance strategy was modulated to meet the evolving pattern of market demand and involved an extension of maturity of issuance. The weighted average maturity of securities issued during 2011-12 (up to 14 November 2011) was 12.36 years as compared to 11.33 years in the corresponding period of the previous year.

Equity markets

Bearish trends persist in the equity markets on global cues

1.59 In sync with the bearish sentiments prevailing in the global markets, the equity markets in India witnessed a downturn since the beginning of the year 2011. Compared to the last trading day in the year 2010, Sensex lost 2804.08 points or 13.6 per cent and Nifty lost 807.9 points or 13.17 per cent as on 31 October, 2011. However, in the current financial year, the Sensex lost 1740 points (or -8.95 per cent) whereas, Nifty lost 507.15 points (or -8.69 per cent). Market capitalisation is around 0.79 times the GDP of 2010-11 (revised estimate of GDP at market price). Indian market is relatively less affected as compared to some of the major Asian and European markets from the present financial crisis in the Eurozone. This is evident from the fact that while France (CAC) and Germany, DAX has lost 18.7 per cent and 12.8 per cent, BSE Sensex has lost only 8.95 per cent.

1.60 The economic and political developments in the Euro zone on resolving the ongoing soverign debt crisis has had its impact in markets around the world. Indian markets have broadly followed the trend in the global markets (Table 1.22), though the extent of fall in the Indian markets has been less as compared to its global peers.

Table 1.22: Equity indices across markets

	31-Oct-11	End of March 2011	Percentage Change
Taiwan Weighted	7587.69	8683.3	-12.62
Jakarta, Indonesia	3790.85	3678.67	3.05
Kospi, Korea	1909.03	2106.7	-9.38
Strait, Singapore	2855.77	3105.85	-8.05
Shanghai, China	2468.25	2928.11	-15.71
Hang Seng, Hong Kong	19864.87	23527.52	-15.57
Nikkei, Japan	8988.39	9755.1	-7.86
BSE, India	**17705.01**	**19445.22**	**-8.95**
FTSE, UK	5544.2	5908.8	-6.17
DAX, Germany	6141.34	7041.31	-12.78
CAC, France	3242.84	3989.18	-18.71
S&P 500, US	1253.3	1325.83	-5.47
Nasdaq, US	2684.41	2781.07	-3.48
DJIA, US	11955.01	12319.73	-2.96

1.61 The main reason for the fall in the global markets, particularly the emerging and developing economies is the impact of the lingering euro zone crisis, which has unleashed a fresh bout of risk aversion and flight to safety of capital. Foreign Institutional Investors (FIIs) flow is a key explanatory variable in analyzing the equity market trends. FII make investments in markets on the basis of their perceptions of the returns that such markets can yield. Their perceptions, are, among other things, influenced by many factors including the prevailing macro-economic environment, the growth potential of the economy and corporate performance in different countries.

1.62 The total net FII flows to India in 2009 stood at US$ 18.51 billion. These flows grew remarkably in 2010 and India received net FII investment worth US$ 39.47 billion in 2010 which has been highest during the last decade. These flows were largely driven by equity inflows which remained buoyant on the back of strong domestic macroeconomic fundamentals and high GDP growth. FIIs have also been quite active in the debt segment in 2010. The net FII inflow in the debt segment was US$ 10.11 billion in 2010 against US$ 1.64 billion in 2009. Net FII Investment in India during 2007-2011(in US$ million) is given below (Table 1.23). Against the high net FII Inflows of 2010, the flows during the present calendar year have been quite low. During the last ten months (January-October) of 2011, India has received only US$ 4.68 billion against US$ 39.47 billion received during last year.

Table 1.23: FII investment

in US $ million

Segments	2007	2008	2009	2010	2011*
Equity	17655.8	-11974.3	16869.84	29361.83	397.81
Debt	2340.1	2636.4	1637.83	10112.16	4290.30
Total	19995.9	-9337.9	18507.67	39473.99	4688.11

* *Investments up to October 31, 2011*

Source: SEBI

Liberalisation measures taken to lift the level of flows is likely to yield results

1.63 In the context of the India's evolving macro-economic situation, the Government in close collaboration with RBI and SEBI has taken various liberalisation measures to attract off-shore funding to meet growing capital needs of the Indian economy.

Box 1.1 Initiative's taken to attract Off-shore Funding:

FII limit for investment in Corporate Long-term Infra Bonds was raised from US$ 5 billion to US$ 25 billion. The scheme has been further liberalized in consultation with RBI and SEBI to make it attractive to FIIs. The salient features of the modifications are as under:

- Out of US$ 25 billion, Qualified Foreign Investors (QFIs) have been allowed to invest up to US$ 3 billion in Mutual Fund Debt Schemes which invest in the infrastructure sector.
- Of the remaining US$ 22 billion, US$ 5 billion has been carved out for long-term infra bonds which have an initial maturity of five years or more at the time of issue and residual maturity of one year at the time of first purchase by FIIs. These investments are subject to a lock-in period of one year. FIIs can, however, trade amongst themselves but cannot sell to domestic investors during the lock-in period of one year. The remaining US$ 17 billion limit available to FIIs can be invested in Long-term infra bonds which have an initial maturity of five years or more at the time of issue and residual maturity of three years at the time of first purchase by FIIs. These investments are subject to a lock-in period of three years. During the three-year lock-in period FIIs can trade amongst themselves but cannot sell to domestic investors.
- QFIs have been permitted to invest upto a total of US$ 10 billion in Mutual Funds (MFs) equity schemes and an additional amount upto US$ 3 billion in MF debt schemes which invest in infrastructure. (SEBI Circular dated August 09, 2011).
- FII limit for investment in Government securities increased by US$ 5 billion raising the cap to US$ 15 billion. The incremental limit of US$ 5 billion can be invested in securities without any residual maturity criterion.
- FII limit for investment in Corporate bonds increased by US$ 5 billion raising the cap to US$ 20 billion. The incremental limit of US$ 5 billion can be invested in listed corporate bonds.
- The Government has also liberalized External Commercial Borrowings (ECBs). In May 2011, the ECB ceiling was enhanced from US$ 20 billion to US$ 30 billion for the current financial year and Infrastructure Debt Funds (IDFs) permitted as eligible borrower under ECB.
- In September 2011, several changes were made to encourage investment in the country. The existing ECB limits under automatic approval route was enhanced from US$ 500 million to US$ 750 million for eligible corporates. For borrowers in the services sector, the limit has been enhanced from US$ 100 million to US$ 200 million.
- Renminbi (RMB) has been approved as an acceptable currency for raising ECB upto US$ 1 billion.
- ECB for refinancing of rupee loans of infrastructure projects has been opened to encourage further investment in infrastructure.
- INR denominated ECBs have also been permitted.

1.64 Among the other key initiatives, the following are the important developments.

i. The Financial Stability and Development Council that was set up in pursuance of the Budget announcement of 2010–11 is functioning well. It has already met three times and discussed several important issues relating to the strengthening and development India's financial markets.

ii. The Government had also set up the Financial Sector Legislative Reforms Commission (FSLRC) under the chairmanship of Retired Supreme Court Justice, Shri B N Srikrishna.

This was done with a view to help rewriting and harmonizing financial sector legislation, rules and regulations to address the contemporaneous requirements of the sector. The Commission meets regularly and has held wide-ranging consultations. It is expected to submit its report within its 24-month time-frame which would fall in March, 2013.

iii. SEBI has notified the amended SEBI (Substantial Acquisition of Shares and Takeovers) Regulation 2011 on September 23, 2011. The new Takeover Code regime is expected to make mergers and acquisitions smooth while enhancing the rights and benefits to the minority shareholders. The new Takeover code will significantly align Takeover regulations in India with similar regulations in international capital markets.

iv. India has also become a prominent member of the Financial Action Task Force (FATF). It has already fulfilled its immediate and medium-term term action plan. The FATF assessment team that came in April 2011 'commended' India for its commitment to anti-money laundering and combating financing of terror. It also appreciated India for being on course for the fulfilment of its medium-term commitment plan due in March 2012. During the preliminary and working group meetings of FATF held in Paris in October, 2011 India contributed effectively to the process of identifying emerging challenges of anti-money laundering and terrorist financing and developing new standards by FATF. Recognising her global role, India has been admitted as a member of the Eurasian Group.

1.65 Sovereign Credit Rating of India: The Government has begun a structured interaction process with Sovereign Credit Rating Agencies (SCRAs) to inform them better about the credit strengths of the Government, to share our perspectives on the long-term economic strengths of the Indian economy, and to provide information about new policy initiatives taken by the Government and about other recent statistical updates. Recently, in June 2011, Dominion Bond Rating Service (DBRS) upgraded the trend of India's Long Term foreign and local currency debt ratings from BBB (low) Negative to Stable outlook. DBRS appreciated, inter-alia, the efforts of the Government with regard to fiscal consolidation. In June 2011, Fitch Ratings affirmed India's sovereign credit rating as: Long Term Foreign and Local Currency issuer default ratings at BBB- with Stable outlook, and Short Term Foreign Currency IDR at 'F3' and the country ceiling at 'BBB-'. Fitch appreciated the management of the economy by Indian authorities. It also noted that India's medium-term economic growth prospects remain strong, as potential GDP growth remains greater than 8 per cent, well above the 'BBB'-range median.

Forex Market

Volatility in the second quarter; first quarter being more or less stable

1.66 The risk averse nature of capital flows arising form the sovereign debt crisis that had its impact on the equity markets, also left its imprint by way of higher levels of outflows under FII in the forex market. This was pronounced since August 2011. Prior to that in the period April-July, 2011 there was relative stability and the rupee moved in both the directions in a shorter band. Although the rupee depreciated sharply in September and October 2011 (detailed in subsequent section), the level of depreciation was broadly in line with the other emerging and developing economies. Reflecting the level of demand, the average daily turnover in the forex market was larger in the first quarter ruling under a range of US $ 24-26 billion; in the second quarter it was in the range of US$ 22-23.5 billion.

External sector developments

External sector environment less than conducive for macroeconomic setting in emerging and developing economies

1.67 The global economic environment had a significant bearing on the domestic macroeconomic outcomes in terms of growth in real GDP, inflation and current account deficit. Following the slump caused by the global financial and economic crisis in 2008, which continued through 2009, the year 2010 experienced sharp recovery with global economy achieving 5.1 per cent growth. However, the process received major setback in 2011 due to events like natural disaster in Japan, political unrest in Arab world, downgrading of US sovereign credit rating and unfolding of euro zone crisis.

1.68 The IMF *World Economic Outlook* (WEO) September 2011 revised downward the global growth projections to 4.0 per cent for 2011 from 4.3 per cent in June 2011 WEO and 4.4 per cent in April 2011 WEO. The downward revision in growth projections were deeper for advanced economies, but were also pervasive and included emerging and developing economies, which have been the major drivers of global growth in the recent past. Advanced economies are projected to grow at 1.6 per cent in 2011, while emerging and developing economies are projected to show a growth of 6.4 per cent, led by China (9.5 per cent) and India (7.8 per cent) in 2011. The IMF has also reduced its earlier forecast for the growth of world trade in goods and services from 8.2 per cent to 7.5 per cent for 2011 and further to 5.8 per cent for 2012 (Table 1.24). As per the latest data released by Eurostat, the GDP of the euro area increased by 0.2 per cent during Q3 of 2011 compared to the previous quarter.

Table 1.24 : Select economic indicators – world

Sl.	Item	2009	2010	2011 P	2012 P
1	2	3	4	5	6
1	**World Output (per cent change) #**	-0.7	5.1	4.0	4.0
a	Advanced Economies	-3.7	3.1	1.6	1.9
b	Other Emerging Market & Developing Countries	2.8	7.3	6.4	6.1
	Of which				
	Developing Asia	7.2	9.5	8.2	8.0
	China	9.2	10.3	9.5	9.0
	India	6.8	10.1	7.8	7.5
II	**Net Capital Flows to Emerging Market and Developing Countries (US$ billion)**				
i	Net Private Capital Flows (a+b+c)	267.4	482.3	574.7	610.9
	a) Net Private Direct Investment	310.6	324.8	429.3	462.0
	b) Net Private Portfolio Investment	98.8	197.5	127.1	121.3
	c) Net Other Private Capital Flows	-142.0	-40.1	18.4	27.7
ii	Net Official Flows	134.1	96.4	-33.4	-50.3
III	**World Trade in Goods and Services@**				
i	Trade Volume	-10.7	12.8	7.5	5.8
ii	Export Volume				
	a) Advanced Economies	-11.9	12.3	6.2	5.2
	b) Emerging & Developing Economies	-7.7	13.6	9.4	7.8
IV	**Current Account Balance (per cent to GDP)**				
i	US	-2.7	-3.2	-3.1	-2.1
ii	China	5.2	5.2	5.2	5.6
iii	India	-2.8	-2.6	-2.2	-2.2
iv	Middle East and North Africa	2.4	7.7	11.2	9.0

P: Projections, #: growth rates are based on exchange rates at purchasing power parities, @: average of annual percentage change for world exports and imports of goods and services

Source: IMF World Economic Outlook, September 2011

1.69 The characteristic feature of the present crisis has been its incremental nature, which makes the global economic situation increasingly uncertain. A series of events like sovereign and bank rating downgrades, failure to build political consensus in the euro zone and the risk on/off strategies of investors are transferring intermitted shocks to the global economy. While the markets try to adapt, more negative news follow that further impacts the equity, currency, and commodity markets. The global economy therefore is faced with the situation of one step forward and two steps back with steady deterioration. This is more serious because the new set of shocks are setting back the recovery phase of the global economy.

1.70 World Trade Volume (goods and services) is expected to grow slower at 7.5 per cent in 2011 and 5.8 per cent in 2012 compared to the 12.8 per cent in 2010 which of course was due to the high base effect with negative growth of 10.7 per cent in 2009 by the WEO of the IMF (Sept. 2011). (The June forecasts of IMF have been revised downwards by 0.7 per cent and 0.9 per cent for 2011 and 2012 respectively). Import growth of advanced countries is projected at 5.9 per cent for 2011 and 4.0 per cent in 2012 and of emerging and developing economies at 11.1 per cent and 8.1 per cent respectively. Export growth of advanced countries is projected at 6.2 per cent and 5.2 per cent for 2011 and 2012 respectively and for emerging and developing economies it is 9.4 per cent and 7.8 per cent respectively.

G. Merchandise Trade

India's share in world trade rising with rapid growth strides

1.71 In merchandise trade, India is the 20th largest exporter in the world with a share of 1.4 per cent in 2010 and 13th largest importer with a share of 2.1 per cent in 2010. In commercial services, India is the 7th largest exporter and importer with 3.3 per cent of the world's share in both exports and imports. Continuing its rapid growth, India's merchandise exports grew by 41.1 per cent to US $ 252 billion while imports grew by 20.3 per cent to US $ 347 billion in 2010-11. POL imports accounted for about 30.4 per cent of India's total imports with a growth of 20.8 percent. There was high export growth of engineering goods (84 per cent), petroleum products (49.8 per cent) and electronic goods (58.7 per cent). Moderate growth was registered by chemicals and related products (28.4 per cent), Gems & Jewellery (28.3 per cent) and there was low export growth in textiles (17.1 percent) and leather and manufactures (12.0 per cent).

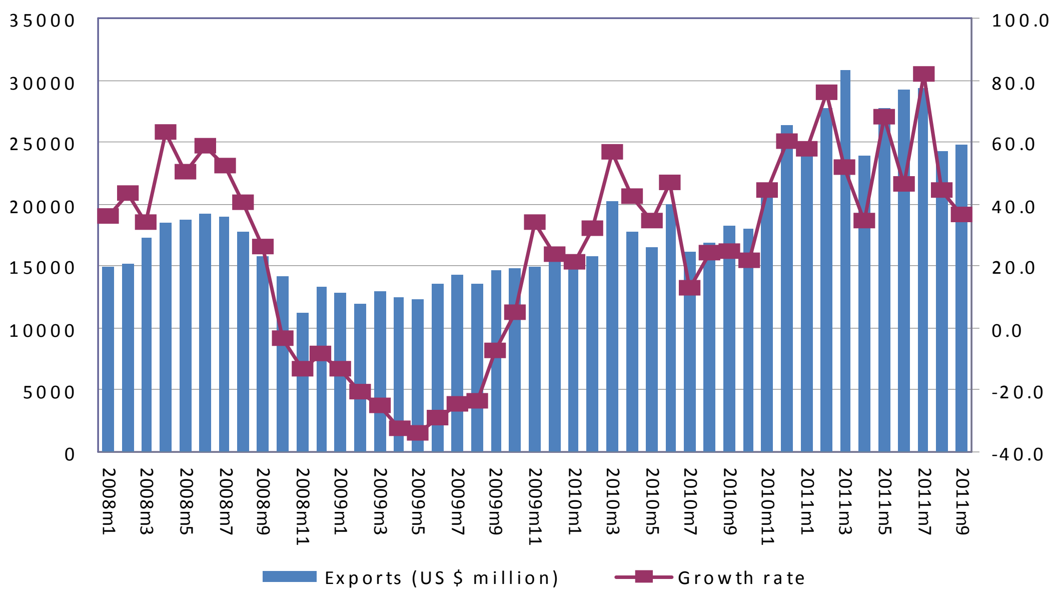
Trade Performance during 2011-12 (April- September)

1.72 During the first half of 2011-12, the value of exports was US$ 160 billion as against US$ 105 billion registering a growth of 52 percent in dollar terms over the corresponding period of the previous year. However, export growth in October 2011 has decelerated with provisional figures showing a growth rate of 10.8 per cent. This is both due to the absence of base effect benefit and also slowdown in EU and US. The value of imports in 2011-2 (April-September) was US$ 233.5 billion registering a growth of 32.4 percent in dollar terms. Oil imports were at US$ 70.3 billion which was 42.4 percent higher than the oil imports in the corresponding previous period. Non-oil imports were at US$ 163.2 billion which was 28.5 percent higher than the level of such imports in the corresponding period of the previous year.

1.73 During April-September 2011, the following export sectors registered high export growth: engineering goods (103 per cent); electronic goods (67 per cent) petroleum & oil products, (53 per cent); Drugs and pharmaceuticals (33 per cent); Readymade garments, (32 per cent); leather (26 per cent); Gems & Jewellery (23 per cent); Cotton yarn and fabric made-up (22.5 per cent). Imports registering significant growth are: POL, (42 per cent); Gold and silver (80 per cent); machinery, (34 per cent); electronics, (33 per cent); Organic and inorganic chemicals (26 per cent) and coal (43 per cent).

1.74 The growth performance of exports and imports (in US dollar terms) for the first half and also the first two quarters of this year (Table 1.25) shows that export growth revived in Q3 of 2009-10, continued to be positive during 2010-11 and accelerated in Q3 and Q4 of 2010-11 and in Q1 and Q2 of 2011-12. While this is partially due to the base effect, it is also due to actual revival in exports. In fact India has not only reached the pre-crisis level of exports but even surpassed pre-crisis trends of export growth as can be seen in chart 1.3.

Chart 1.3 Exports of India and growth rate



1.75 Import growth on the other hand has continued to be relatively moderate in Q1 and Q2 of 2011-12. Non-POL import growth has also been relatively moderate in Q1 and Q2 of 2010-11. Non POL Non bullion imports grew by only 17.7 per cent in 2010-12 (April-September) reflecting lower demand for imports needed for industrial activity and exports (Table 1.25)

Table 1.25 : Year-on-Year growth rate of exports and imports (per cent)

	2009-10							2010-11							2011-12		
	Q1	Q2	Q3	Q4	HY1	HY2	FY	Q1	Q2	Q3	Q4	HY1	HY2	FY	Q1	Q2	HY1
Exports	-31.9	-18.9	19.6	36.5	-25.6	28.0	-3.5	41.2	20.0	42.3	55.5	30.0	49.3	41.1	51.3	52.5	52.1
Imports	-29.7	-31.7	15.1	62.4	-30.7	35.0	-5.0	44.4	31.3	17.1	24.2	37.6	20.7	20.3	32.4	32.3	32.4
POL imports	-43.9	-38.1	35.8	102.7	-40.8	63.4	-7.0	55.5	15.1	4.9	20.7	31.9	13.0	20.8	52.6	28.7	42.4
Non POL imports	-22.5	-28.3	7.8	48.9	-25.5	25.2	-4.2	40.3	38.8	22.5	25.8	40.1	24.1	20.0	24.3	33.7	28.5
Net POL imports	-40.4	-39.9	17.9	98.4	-40.1	49.6	-10.9	40.8	3.4	-4.6	5.0	19.0	0.4	7.0	42.0	...	...

Source: Computed from DGCI&S data.

1.76 Trade deficit for the first half of 2011-12 grew by 3.3 per cent to US $ 73.5 billion. However, the figure for October 2011 indicates rising trade deficit despite a moderate import growth rate due to the deceleration in export growth rate. Latest import and export growth rates of some of the important trading partners of India show a fall in growth rate in most of the trading partners with monthly import growth rate of USA being the lowest in September 2011 (since February 2010), China's export growth rate being the lowest in October 2011 (since January 2010) except for February 2011 and Hong Kong registering negative export growth rate and very low import growth rate in September 2011 (the lowest in 2010 & 2011).

Composition and direction of exports and imports

Changes in composition and direction explain relative resilience

1.77 Composition of exports:The first quarter of 2011-12 (April-June) witnessed a robust export growth in items like petroleum products (72.8 per cent), engineering goods (103.4 per cent), agriculture & allied products (101.3 per cent), electronic goods (67 per cent) and chemicals and related products (48.2 per cent). Leather and manufactures, gems and jewellery and textiles have registered moderate growth. While the share of petroleum products and engineering goods in total exports have increased from 16 percent and 21.9 per cent in the first quarter of 2010-11 to 18.4 percent and 29.4 percent respectively in the first quarter of 2011-12, the share of gems and jewellery has fallen from 13.2 per cent to 10.4 per cent during the same period.

1.78 Direction of principal exports:India's export growth of principal commodities to US, EU and 'Others' i.e, the rest of the world shows that exports to US was relatively lower than to EU and Others' in the first quarter of 2011-12. Exports of important items like engineering goods, gems and jewellery, chemicals and related products and textiles to US witnessed relatively lower growth in Q1 of 2011-12 which is lower than the growth of India's export of these goods to the other two destinations. While most of the principal exports to US had positive growth in Q1 of 2011-12, exports of ores and minerals had negative growth to US and exports of handicrafts registered negative growth to all the three destinations. Exports of petroleum products and agriculture and allied products to US, particularly registered very high growth rates. In the case of Indian exports to EU, high export growth is registered in major items like engineering goods, petroleum products, chemicals and related products, textiles, electronics goods and agriculture and allied products. However, gems and jewellery witnessed low growth in Q1 of 2011-12. In the case of India's exports to 'Others', also high growth can be seen in Q1 of 2011-12 of major items like engineering goods, petroleum products and chemicals and related products and agriculture and allied products while export growth of textiles and gems and jewellery was moderate.

1.79 Composition of imports: India's imports witnessed a moderate growth of 32.4 per cent in Q1 of 2011-12 compared to 44.4 per cent in corresponding period of the previous year. Within the group of bulk imports, POL imports recorded a growth of 52.6 percent due to high international oil prices. While edible oils also registered high import growth, non-ferrous metals and metaliferous ores and products also registered good import growth. However, iron & steel and fertilizers registered a negative growth of 15.1 per cent and 29.3 per cent respectively. Pearls, precious and semiprecious stones imports also witnessed negative growth in Q1 of 2011-12. But machinery import growth was robust at 26.9 percent. The share in imports of another major item i.e., gold and silver in total imports has been increasing from 7.6 percent in 2008-09 to 11.5 per cent in 2009-10 and further to 12 percent in 2010-11. In Q1 of 2011-12, it witnessed a growth of 168 percent compared to Q1 of 2010-11 with the share reaching 15.2 per cent.

1.80 Direction of Trade: In 2010-11, India's exports to Europe, Africa, America regions witnessed a growth of 32.1 percent, 60 percent and 40 percent respectively. India's exports to Asia & ASEAN region registered a high growth of 46.5 percent and within Asia & ASEAN region, India's exports to WANA (UAE, Saudi Arabia etc), North East Asia (China, Hong Kong, Japan etc) and

ASEAN (Singapore, Indonesia, Thailand and Malaysia etc) witnessed a growth of 44 percent, 45 per cent and 54.4 per cent with a share of 22.4 percent, 16.6 per cent and 11 percent respectively. India's imports from Europe, America and Asia & ASEAN registered a growth of 16.7 percent, 13.5 per cent and 19.7 per cent respectively. During 2011-12 (April-June), India's exports to Asia & ASEAN registered a growth of 54.3 percent with a share of 55.3 percent in India's total exports. India's export to America (North and Latin America) witnessed a growth of 49.4 percent (15.8 percent share) and to Europe, a growth of 67.2 percent (20.3 percent share). During 2011-12 (April-June), India's imports from Asia & ASEAN registered a growth of 38.7 percent (63 percent share in India's total imports); from Europe a growth of 68.7 percent (20.2 percent share) and from America (North and Latin America) a growth of 1.4 percent (8.5 percent share).

Foreign Trade Policy (FTP) 2009-14 – Impact on exports

1.81 To enhance the competitiveness of India's exports by supporting up gradation in technologies and diversification of export destinations / markets and to help the labour intensive sectors, FTP 2009-14 has come with some important policies (see Box 1.2).

Box 1.2 : Foreign Trade Policy (2009-14) Measures: Some important measures in 2011

- **Special Bonus Benefit Scheme** introduced to provide special assistance to specified sectors for 6 months by giving duty credit of 1 per cent of FOB value of exports. The scheme would cover 49 products. Some of the major items under Engineering are cast articles of alloys steel and stainless steel, hand tools, gas compressors, motorcycles and goods vehicle. The list under chemicals and pharma include carbon black, potassium iodide, niacin amide, erythromycin and its derivates, ciprofloxacine etc. This scheme will be available on exports made on or after 1.10.2011. The scheme would automatically sunset on 31.3.2012.
- **Special Focus Market Scheme (SFMS)** introduced with a view to increase competitiveness of exports with a geographical targeting by providing additional 1 per cent duty credit when exports are made to 41 existing FMS countries. This duty credit is over and above the duty credit granted under FMS. The markets are categorized into three groups, namely Latin American (12 countries), African (22 countries) and CIS countries (7 countries). The total number of countries included under the scheme is 41. The list includes Cuba and Mexico as new entrants.
- **Support to Apparel Sector** by extending MLFPS for exports to USA and EU for all Readymade garments items under chapter 61 and 62. The duty credit would be available to exports made during 1.4.2011 to 31.3.2012 @2 per cent of FOB value of exports.
- **Focus Product Scheme** has been expanded to include 130 additional items. These items are mainly in the sectors of Chemicals/Pharmaceuticals, Textiles, handicrafts, Engineering and Electronics sectors. The duty credit scrip @2% of FOB value of exports from 01.04.2011 available to these newly added products.
- **Market Linked Focus Product Scheme** extended to cover new items to specified countries for duty credit scrip @2% of FOB value of exports.
- **Towns of export excellence** The towns of Firozabad for glassware, Bhubaneshwar for marine products and Agartala for bamboo and cane products have been notified as towns of export excellence.
- **The Status Holders Incentive Scrip (SHIS) Scheme** has been extended for 2012-2013 also.
- **Other measures** like EDI initiatives and reduction in transaction cost and introduction of 'Niryat Bandhu'- A scheme for International Business Mentoring.

Recent Developments in WTO Negotiations -

1.82 The Doha Round of trade negotiations in the World Trade Organisation (WTO) effectively made very little progress after 2008. Throughout 2009 and 2010, discussions continued but no headway was made on any substantive issue in the negotiations. However, the subject featured on the agenda of almost every major international meeting and there were strong affirmations of political support for an early conclusion of the Doha Round. Following the directions of G-20 leaders, at their Seoul Summit in November, 2010, WTO members agreed on a Work Programme in November 2010, aimed at concluding the Doha talks in 2011. Discussions continued in Geneva during March and April 2011, in a variety of formats and Reports on each area of the negotiations were issued on 21 April 2011. While they indicated significant progress in many areas, they also captured the wide gaps remaining on many issues.

1.83 The focus then shifted to the possibility of selecting some issues for finalization as an 'Early Harvest' in time for the 8th Ministerial Conference of the WTO scheduled to be held in December 2011. It began with an attempt to select issues of particular importance to LDCs. However, these attempts did not meet with any success and proved not only unproductive but very divisive as well. Members could not agree on the issues to be included and, further sought to selectively bring in various issues of commercial interest to them. The 8th Ministerial Conference of the WTO is scheduled to be held in Geneva during 15-17 December 2011. The agenda for the Conference is at present being finalised in the WTO. This process is proving to be a difficult one as some Members are trying to put various issues on the agenda that have serious implications for domestic policy space. India has been actively participating in the discussions in the WTO to ensure that the interests of developing countries in general and its own interests in particular are protected.

Special Economic Zones (SEZs)

1.84 In a short span of about five years since SEZs Act and Rules were notified in February, 2006, formal approvals have been granted for setting up of 582 SEZs out of which 382 have been notified. There has been overall growth of export of 2180 per cent over past eight years (2003-04 to 2010-11). The total physical exports from SEZs as on 30th September, 2011 i.e. in the first half of the current financial year, has been to the tune of ₹ 1,76,480 crore approximately registering a growth of 26.2 per cent over the exports of corresponding period of the previous financial year. The total investment in SEZs till 30th September, 2011 is ₹ 2,77,259 crore approximately, including ₹ 2,73,223 crore in the newly notified zones. 100 per cent FDI is allowed in SEZs through automatic route as per the provisions of the SEZ Act, 2005. A total of 148 SEZs are making exports. Out of this 84 are IT/ITES, 17 Multi product and 47 other sector specific SEZs. The total number of units in these SEZs is 3308.

India's FTAs

1.85 Given the stalemate in WTO negotiations, Regional Trade Agreements (RTAs) have assumed greater importance. Like other countries, India has also been actively engaged in RTAs to increase trade with partner countries. Some important developments in the case of India's RTAs/FTAs are the following:

- India - Japan CEPA signed on 16.02.2011 and India - Malaysia CECA signed on 18.02.2011 have become operational with effect from 01.08.2011 and 01.07.2011 respectively.
- India - EU Bilateral Trade & Investment Agreement (BTIA): 13 rounds of negotiations have been held so far. 13th round was held during March 31 – April 6, 2011 in New Delhi.

- India – ASEAN CECA: Services and Investment Agreement: Negotiations on Trade in Services and Investment are under way. Last TNC meeting was held during 8-11 October, 2011 in New Delhi. The next meeting of negotiations on Investment was held during 9-10 November, 2011 in Malaysia.
- India - Thailand CECA: 21 rounds of negotiations have been held so far by the Trade Negotiating Committee (TNC). The last round was held during 7-9 September, 2011 in New Delhi.
- India – Mauritius CECPA: 10 rounds of negotiations have been held so far. Chapter on Trade in Goods Preferential Trade Agreement (PTA) has been finalised while negotiations on Trade in Services and Trade in Investment are underway.
- India - EFTA BTIA (Iceland, Norway, Liechtenstein and Switzerland): 9 rounds of negotiations have been held so far. The 9th round was held during 11-14 October, 2011 in New Delhi.
- India – Israel FTA: 3 rounds of negotiations have been held so far. The 3rd round took place during 4-5 October, 2011 in New Delhi. 4th round is scheduled to be held in the second week of January, 2012 in Jerusalem.
- India - Singapore CECA (Review): The Second Review of India-Singapore CECA was launched on May 11, 2010. Thereafter, Working Group meetings have been held and the last such meeting was held in Delhi on 31 October, 2011.
- India – Chile PTA : 3 meetings for expansion of the India-Chile PTA have been held so far. The 3rd meeting on expansion of India-Chile PTA was held during 30 June to 1 July, 2011 in Chile.
- India – Canada CEPA: The inaugural round of negotiations took place in November, 2010 in New Delhi. This was followed by the first meeting in Ottawa, Canada during 4-5 July, 2011.
- India - Indonesia CECA: Commencement of negotiations on Indonesia - India CECA was announced on 25th January 2011 during the visit of Indonesian President to New Delhi.
- India-Australia CECA: The inaugural round of negotiations was held in July, 2011. The 2nd round took place during 17-18 November, 2011 in Australia.
- Common Market for Eastern and Southern Africa (COMESA): 17th TERC held on 29th April, 2011 has approved the constitution of a JSG for exploring the feasibility of a FTA/PTA between India and COMESA. Response from COMESA Secretariat for setting up a Joint Study Group (JSG) is awaited.

H. Balance of Payments development during 2010-11

Widening current account; but financing adequate through capital flows

1.86 During the year 2010-11, exports (on BoP basis) crossed the US$ 200 billion mark for the first time. It increased by 37.5 per cent to reach US$ 250.5 billion in 2010-11. Like exports, imports (on BoP basis) also increased to US$ 380.9 billion in 2010-11, recording 26.7 per cent increase. As a proportion of the GDP, trade deficit improved to 7.5 per cent in 2010-11 vis-à-vis 8.6 per cent in 2009-10. Net invisible balance showed improvement, registering 7.8 per cent increase to US$ 86.2 billion during 2010-11. However, as a proportion of the GDP, net invisibles balance deteriorated to 4.9 per cent in 2010-11 from 5.8 per cent in 2009-10. In absolute terms, current account deficit (CAD) widened to US$ 44.3 billion in 2010-11 from US$ 38.4 billion in 2009-10, despite improvement in net invisibles, mainly on account of higher trade deficit.

1.87 As a proportion of the GDP, CAD however, marginally improved to 2.6 per cent in 2010-11 as compared to 2.8 per cent in 2009-10. In 2010-11, despite the decline in the foreign direct investment and portfolio investments, net capital flows at US$ 59.7 billion was higher by 11.8 per cent as compared with US$ 53.4 billion in 2009-10, mainly due to larger inflows under external commercial borrowings, external assistance, short term trade credit, NRI deposits and bank capital. However, as a proportion of the GDP, capital account balance declined to 3.5 per cent in 2010-11 from 3.9 per cent in 2009-10. Net capital flows in 2010-11 were more than the CAD and resulted in accretion to foreign exchange reserves to the tune of US$ 13.1 billion.

Balance of Payments during first Quarter (April-June 2011) of 2011-12

1.88 The highlights of the balance of payments development during the first quarter of 2011-12 vis-à-vis the first quarter of 2010-11 were: trade deficit to GDP ratio improved, net invisible balance showed moderation, and the current account deficit and capital account balance remained more or less at the same level.

1.89 During the first quarter of the fiscal 2011-12, exports recorded a year-on-year growth of 45.8 per cent reaching US$ 80.6 billion as against a level of US$ 55.3 billion recorded during the first quarter of 2010-11. Imports recorded a year-on-year growth of 33.1 per cent reaching US$ 116.1 billion over US$ 87.2 billion during the first quarter of 2010-11. The growth in imports was mainly due to sharp rise in prices and increase in imports of gold and silver, machinery and electronic goods. Despite higher growth of exports relative to imports, trade deficit in absolute terms amounted to US$ 35.5 billion, as against US$ 31.9 billion during the first quarter of 2010-11. However, trade deficit as a proportion of the GDP declined from 8.3 per cent in the first quarter of 2010-11 to 7.7 per cent in the first quarter of 2011-12 on account of higher increase of 20.0 per cent in the GDP at market prices vis-a-vis 11.3 per cent increase in trade deficit during the period under reference.

1.90 Goods and Services deficit (i.e Trade Balance plus Services) also widened to US$ 23.5 billion during 2011-12 (first quarter) as compared to US$ 22.3 billion during the corresponding period last year on account of increase in trade deficit. However as a proportion of the GDP, it declined to 5.1 per cent in 2011-12 (first quarter) from 5.8 per cent in 2010-11 (first quarter).

1.91 Under invisibles, service receipts (comprising travel, transport, software business, and financial services) of US$ 31.0 billion recorded a growth of 16.2 per cent during the first quarter of 2011-12 over US$ 26.6 billion in Q1 of 2010-11. Software services exports at US$ 14.5 billion also recorded a growth of 10.6 per cent during the first quarter of 2011-12. According to NASSCOM estimates (February 2011), software exports are expected to grow by about 16-18 per cent to about US$ 68-70 billion during 2011-12. Private transfer receipts, comprising mainly remittances from Indians working overseas, of US$ 14.4 billion during the first quarter of 2011-12 increased by 5.3 per cent (as compared to 3.0 per cent growth a year earlier).

Invisibles payments, on the other hand, recorded a lower growth of 11.8 per cent as compared with 41.7 per cent in the first quarter of 2010-11 mainly due to substantially lower growth recorded in payments under business and financial services. Accordingly, net invisibles (invisibles receipts minus invisibles payments) increased by 8.0 per cent in the first quarter of 2011-12, amounting to US$ 21.3 billion *vis-a-vis* US$ 19.8 billion in the first quarter of 2010-11 (a decline of 10.6 per cent). Net invisibles financed around 60 per cent of India's merchandise trade deficit in the first quarter of 2011-12. In terms of GDP, net invisible balance declined to 4.6 per cent in 2011-12 (up to the first quarter) from 5.1 per cent in 2010-11 (up to the first quarter).

1.92 CAD widened to US$ 14.2 billion (3.1 per cent of GDP) in the first quarter of 2011-12, despite improvement in net invisibles, as against US$ 12.1 billion (3.1 per cent of GDP) during the corresponding period in 2010-11, mainly on account of higher trade deficit.

1.93 Net capital flows was US$ 20.9 billion in the first quarter of 2011-12 as compared to US$ 16.8 billion during the corresponding period of last year, mainly due to larger inflows under foreign direct investment and bank capital. Net FDI (inward FDI minus outward FDI) was significantly higher at US$ 7.2 billion in April-June 2011 as compared with US$ 2.9 billion in April-June 2010, due to higher inward FDI. At US$ 5.7 billion net outward FDI was higher than the corresponding level of 2010-11 (US$ 3.2 billion). The sharp increase in FDI to India during the first quarter of 2011-12 was mainly on account of higher FDI inflows under manufacturing, financial services, business services and communication services. There was significant increase in banking capital from US$ 4.0 billion in the first quarter of 2010-11 to US$ 12.7 billion in Q1 of 2011-12. Net external commercial borrowings (ECBs) inflow increased marginally to US$ 2.9 billion in April-June 2011 as against US$ 2.2 billion in April-June 2010.

1.94 Portfolio investment, short term trade credit and external assistance components of capital account showed moderation during the first quarter of 2011-12 vis-a-vis the first quarter of 2010-11. Portfolio investment witnessed moderation to US$ 2.5 billion during the first quarter of 2011-12 as against of US$ 4.6 billion during the corresponding period of 2010-11, due to moderation in FII inflows (US$ 2.5 billion up to the first quarter in 2011-12 vis-a-vis US$ 3.5 billion in Q1 of 2010-11) reflecting uncertainties in the euro zone and the US economy. Similarly, short term trade credit decreased from US$ 4.3 billion in April-June 2010 to US$ 3.1 billion in April-June 2011, indicating moderation in domestic economic performance. Further, external assistance witnessed significant decrease from US$ 2.5 billion in 2010-11 (up to Q1) to US$ 0.4 billion in 2011-12 (up to the first quarter).

1.95 The Capital Account Balance has improved by 24.4 per cent to US$ 20.9 billion (4.5 per cent of GDP) during 2011-12 (up to the first quarter) from the level of US$ 16.8 billion (4.4 per cent of GDP) during the corresponding period in 2010-11. Overall, the capital account surplus was higher than the CAD by US $ 5.4 billion, which resulted in net accretion to foreign exchange reserves of equivalent amount on BoP basis during the first quarter of 2011-12. The summary of the Balance of Payment developments during 2009-10 to 2011-12 (up to the first quarter 2011) are given in Table 1.26.

Table 1.26 : Balance of payments developments during 2009-10, 2010-11 and 2011-12 (Q1–April-June 2011)

(US$ billion)

Sl.	Items	2009-10 (April-March)	2010-11 (April-March) (PR)	2010-11 (Q1 April June) (PR)	2011-12 (Q1 April June) (P)
1	2	3	4	5	6
1	Exports	182.2	250.5	55.3	80.6
2	Imports	300.6	380.9	87.2	116.1
3	Trade Balance	-118.4	-130.5	-31.9	-35.5
4	Net Invisibles	80.0	86.2	19.8	21.3
5	Goods & Services Balance	-82.6	-82.8	-22.3	-23.5
6	Current Account Balance	-38.4	-44.3	-12.1	-14.2
7	External assistance (Net)	2.9	4.9	2.5	0.4
8	External Commercial Borrowing (Net)	2.8	11.9	2.2	2.9
9	Short-term Trade Credit	7.6	11.0	4.3	3.1
10	FDI (Net)	18.8	7.1	2.9	7.2
11	Portfolio	32.4	30.3	4.6	2.5
12	Banking Capital	2.1	5.0	4.0	12.7
13	Capital Account Balance	53.4	59.7	16.8	20.9
14	Capital Account Balance (including errors & omissions)	51.8	57.3	15.8	19.6
15	Change in Reserves (-indicates increase; **+** indicates decrease) (on BoP Basis)	-13.4	-13.1	-3.7	-5.4
	Memo Items/Assumptions				
1	Trade balance/GDP (%)	-8.6	-7.5	- 8.3	- 7.7
2	Goods & Services Balance/GDP(%)	-6.0	-4.8	- 5.8	- 5.1
3	Invisible Balance/GDP(%)	5.8	4.9	5.1	4.6
4	Current Account Balance/GDP(%)	-2.8	-2.6	- 3.1	- 3.1
5	Net Capital Flows/GDP(%)	3.9	3.5	4.4	4.5

Note: PR: Partially Revised, P: Preliminary *Source: Reserve Bank of India*

1.96 As per the latest available information on capital inflows, net FDI inflows were US$ 25.8 billion during April-September 2011 as compared to US$ 11.0 billion in the corresponding period of the preceding year. FII inflows fell sharply to US$ 0.9 billion during April-September, 2011 from US$ 22.3 billion a year earlier mainly reflecting concerns emanating from the economic conditions in US and a worsening of a debt crisis in the Euro area. ECB approvals were higher at US$ 18.3 billion during April-September 2011 (US$ 10.6 billion a year earlier), NRI deposits (net) amounted to 2.0 billion during April-September 2011 vis-a-vis US$ 2.2 billion during the same period in 2010-11.

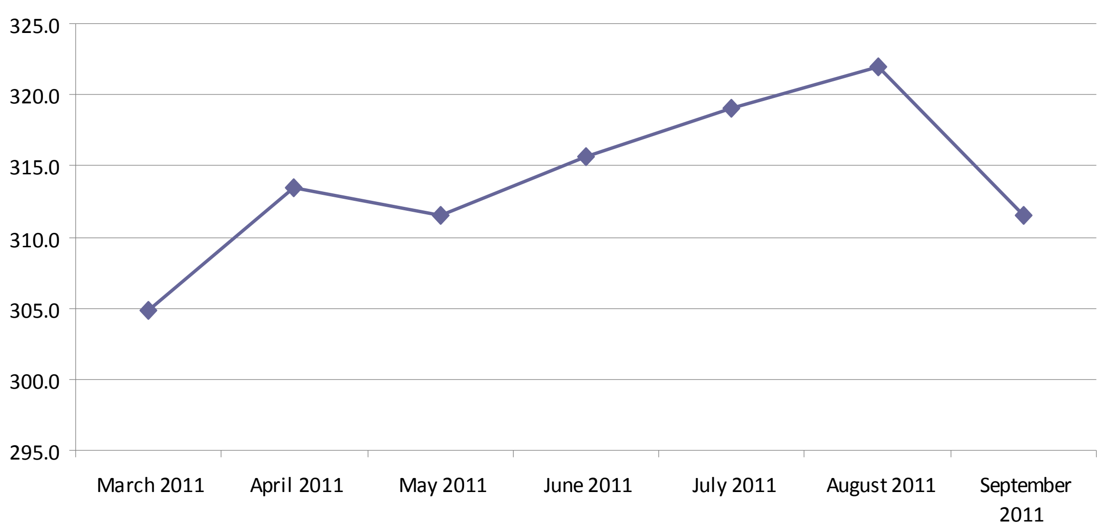
Foreign Exchange Reserves

Reserves adequate to meet any contingency

1.97 Safety and liquidity are the guiding principles of foreign exchange reserves management in India with return optimization being embedded strategy within this framework. India's foreign exchange reserves comprise Foreign Currency Assets (FCA), Gold, SDRs and Reserve Tranche Position (RTP) in the IMF. Beginning from a low level of US$ 5.8 billion at end-March 1991, India's foreign exchange reserves increased to peak of US$ 314.6 billion at end-May 2008. The reserves declined thereafter to US$ 252.0 billion at the end of March 2009. During 2010-11, foreign exchange reserves increased by US$ 25.8 billion from US$ 279.1 billion at end March 2010 to US$ 304.8 billion at end March 2011. Of the total increase in reserves, US$ 12.7 billion was account of valuation gains arising out of depreciation of the US dollar against major currencies, and balance US$ 13.1 billion was on BoP basis.

1.98 In the current fiscal, foreign exchange reserves displayed increasing trend and reached its all time high level of US$ 322.0 billion at end August 2011. However, it declined to US$ 311.5 billion at end September 2011 (Chart 1.4). Foreign currency assets (FCAs) are the major constituent of India's foreign exchange reserves. FCAs increased by US$ 1.4 billion from US$ 274.3 billion at end March 2011 to US$ 275.7 billion at end-September 2011.

Chart 1.4 Foreign Exchange Reserves during 2011-12



1.99 India continues to be one of the largest holders of foreign exchange reserves. Country-wise details of foreign exchange reserves reveal that India is the sixth largest foreign exchange reserves holder in the world, after China, Japan, Russia, Switzerland and Brazil **(Table 1.27)** at end September 2011.

Table 1.27 : Foreign exchange reserves of some major countries

(US$ billion)

Sl	Country	Foreign exchange reserves at end-September, 2011
1	China	3201.7
2	Japan	1218.6
3	Russia	517.0
4	Switzerland	376.9
5	Brazil	349.7
6	India	311.9
7	China P R Hong Kong	277.6
8	Germany	245.0
9	France	209.5
10	Italy	178.2

Source: IMF except for China.

Exchange Rate

Recently under stress due to global events; depreciation in line with other currencies

1.100 The average monthly exchange rate of rupee (average of buying and selling rate of FEDAI) against the US dollar appreciated by 1.2 per cent from ₹45.50 per US dollar in March 2010 to ₹44.97 per US dollar in March 2011. Similarly, on point–to-point basis, the average exchange rate of rupee appreciated by 1.1 per cent from ₹45.14 per US dollar on 31 March 2010 to ₹44.65 per US dollar on March 31, 2011. This was mainly on account of weakening of the US dollar in the international market in 2010-11.

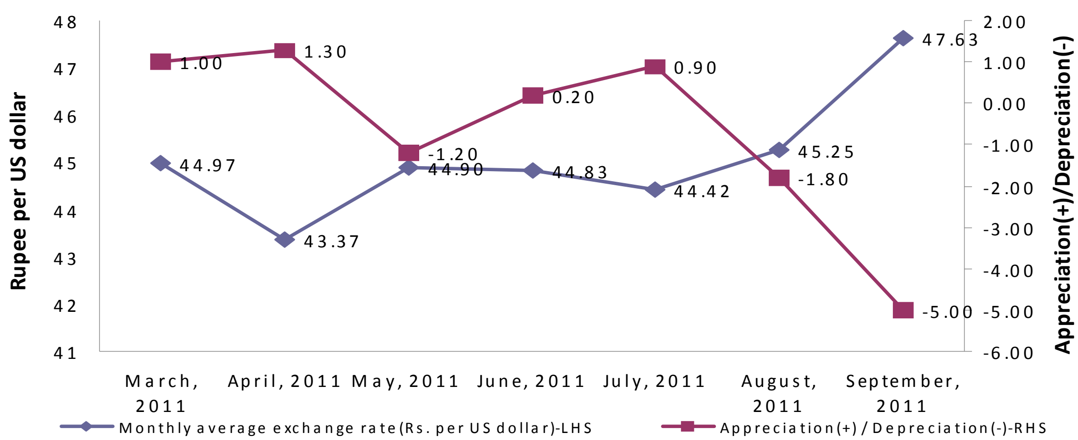
1.101 In the current fiscal 2011-12, the monthly average exchange rate of rupee depreciated by 5.6 per cent from ₹44.97 per US dollar in March 2011 to ₹47.63 per US dollar in September 2011. On month-to-month basis, rupee depreciated by 5.0 per cent to ₹47.63 in September 2011 over the previous month level of ₹45.25 per US dollar (Table 1.28). The Reserve Bank of India had intervened in foreign exchange market for the first time in September 2011 by selling US$ 845 million to reduce excess volatility in rupee exchange rate vis-à-vis US dollar. Depreciation of Rupee during the current year was not specific to India, the currencies of some of the Emerging Market Economies, such as, Brazilian Real, Mexican Peso, Russian Rouble, South Korean Won and South Africa's Rand also depreciated against the US dollar, reflecting the increased demand for dollar as a safe haven asset in the wake of sovereign debt crisis in the Euro zone.

Table 1.28: Exchange rates of rupee per foreign currency and RBI's sale/purchase of US dollar in the exchange market during 2010-11 and 2011-12

	Monthly average exchange rates (₹ per foreign currency)*				
Month	**US$**	**Pound Sterling**	**Euro**	**Japanese Yen ****	**RBI Net Sale(-) /purchase (+) US$ million**
1	**2**	**3**	**4**	**5**	**6**
2010-11 (annual average)	45.56	70.87	60.21	53.27	1690
	(4.1)	(6.9)	(11.3)	(-4.1)	
March 2011	44.97	72.71	62.97	54.98	
	(1.0)	(0.8)	(-1.4)	(0.1)	
2011-12 (monthly average)					
April 2011	43.37	72.72	64.25	53.31	-
	(1.3)	(-0.02)	(-2.0)	(3.1)	
May 2011	44.90	73.41	64.48	55.32	-
	(-1.2)	(-0.9)	(-0.4)	(-3.6)	
June 2011	44.83	72.79	64.52	55.65	-
	(0.2)	(0.9)	(-0.1)	(-0.6)	
July 2011	44.42	71.65	63.46	55.91	-
	(0.9)	(1.6)	(1.7)	(-0.5)	
August 2011	45.25	74.11	64.94	58.68	-
	(-1.8)	(-3.3)	(-2.3)	(-4.7)	
September 2011	47.63	75.12	65.47	62.03	(-) 845
	(-5.0)	(-1.3)	(-0.8)	(-5.4)	

** FEDAI indicative rate; ** Per 100 Yen, Figures in parentheses indicate appreciation (+) and depreciation (-) over the previous month / year in per cent. Source: RBI. Some percentage figures may not tally due to rounding off.*

Chart 1.5 Monthly average exchange rate



1.102 The 6-currency trade-based Real Effective Exchange Rate (REER) (base: 2004-05=100) of the Rupee appreciated by 4.5 per cent between March 2010 and March 2011. During 2011-12 so far (up to September 2011), the 6 currency index showed depreciation of 2.4 per cent over March 2011 largely reflecting depreciation of rupee in nominal terms (Table 1.29).

Table 1.29

Indices of Real Effective Exchange Rate (REER) and Nominal Effective Exchange Rate (NEER) of the Indian Rupee (6-Currency Trade Based Weights)

Base 2004-05 (April-March) = 100

Monthly	NEER	Appreciation (+)/ Depreciation(-) in NEER over previous period/month (%)	REER	Appreciation(+)/ Depreciation(-) in REER over previous period/month (%)
1	2	3	4	5
March 2010	92.19		111.43	
March 2011	90.44	-1.9	116.44	4.5
2011-12 (P)				
April 2011 (P)	90.60	0.2	118.78	2.0
May 2011(P)	89.48	-1.2	117.74	-0.9
June 2011 (P)	89.48	0	117.48	-0.2
July 2011(P)	90.49	1.1	119.14	1.4
August 2011 (P)	88.25	-2.5	116.90	-1.9
September 2011 (P)	85.21	- 3.4	113.67	- 2.8

Source: Reserve Bank of India

1.103 In so far as international currencies are concerned, the US dollar depreciated by 5.9 per cent against the pound sterling, 4.4 per cent against the Euro, 8.4 per cent against the Japanese yen and 12.0 per cent against Australian dollar during 2010-11. In current fiscal 2011-12 (up to end-September), the US dollar appreciated by 2.8 per cent against pound sterling, 5.8 per cent against euro and by 6.9 per cent against Australian dollar. However, US dollar depreciated by 7.3 per cent against Japanese yen **(Table 1.30)**.

Table 1.30 : Exchange rate of US dollar against international currencies

Month/Year	GBP/USD	Euro/USD	USD/JPY	AUD/USD
1	2	3	4	5
March 2010	1.5082	1.3543	90.885	0.9095
March 2011	1.60315	1.4162	83.21	1.0336
US$ Appreciation(+)/Depreciation(-) (End March 2010– End March 2011) in percent	**-5.9**	**-4.4**	**-8.4**	**-12.0**
2010-11				
April 2011	1.6707	1.4806	81.11	1.0964
May 2011	1.6445	1.4392	81.545	1.0672

Month/Year	GBP/USD	Euro/USD	USD/JPY	AUD/USD
1	2	3	4	5
June 2011	1.6047	1.4503	80.535	1.0721
July 2011	1.6418	1.4384	76.895	1.0990
August 2011	1.6246	1.4374	76.61	1.0692
September 2011	1.5589	1.3391	77.14	0.9668
US$ Appreciation (+)/Depreciation (-) (End March 2011–End September 2011) in percent	**2.8**	**5.8**	**- 7.3**	**6.9**

External debt at manageable levels

1.104 India's external debt continues to remain within manageable limits as indicated by the external debt to GDP ratio of 17.4 per cent and debt service ratio of 4.2 per cent during 2010-11. As per the latest data available, India's external debt stood at US$ 316.9 billion at end-June 2011, recording an increase of US$ 10.4 billion (3.4 per cent) over an estimate of US$ 306.5 billion at end-March 2011. Increase in external debt was on account of significant rise in commercial borrowings and short-term trade credits. Long-term debt accounted for 78.4 per cent and short-term debt 21.6 per cent of total external debt. The share of Government debt (US$ 78.7 billion) was 24.8 per cent in total external debt at end-June 2011, while the share of non-Government (US$ 238.2 billion) was 75.2 per cent. The share of concessional debt in total external debt stood at 15.1 per cent at end-June 2011 as compared to 15.5 per cent at end-March 2011. The ratio of short-term external debt to foreign exchange reserves at 21.7 per cent at end-June 2011 was higher than that of 21.3 per cent at end-March 2011.

1.105 The international comparison of external debt, based on the World Bank publication 'Global Development Finance, 2011' with a data lag of two years, reveals that India was at *fifth* position among top twenty developing indebted countries in 2009 in terms of stock of external debt, after China, the Russian Federation, Brazil and Turkey. In terms of the ratio of external debt to Gross National Income (GNI), India's position was the *fifth* lowest, with China having the lowest ratio of external debt to GNI. The share of concessional credit in India's external debt portfolio was the *fourth* highest after Pakistan, Indonesia and the Philippines.

1.106 The active external debt management policy of the Government of India has helped in containing the growth of accumulation of external debt and maintaining a comfortable external debt position. It continues to focus on monitoring long and short-term debt, raising sovereign loans on concessional terms with longer maturities, regulating external commercial borrowings through end-use and all-in-cost restrictions, and rationalizing interest rates on Non-Resident Indian (NRI) deposits. As a consequence of prudent external debt management policy, the key external debt sustainability indicators remained at comfortable levels at end-June 2011 (Table 1.31).

Table 1.31 : Key External Debt Indicators

(Per cent)

Year	External Debt (US$ billion)	Ratio of External Debt to GDP	Debt Service Ratio	Ratio of Concessional Debt to Total Debt	Ratio of Foreign Exchange Reserves to Total Debt	Ratio of Short Term External Debt* to Foreign Exchange Reserve	Ratio of Short-Term External Debt to Total Debt
1	2	3	4	5	6	7	8
2005-06	139.1	16.8	10.1[a]	28.4	109.0	12.9	14.0
2006-07	172.4	17.5	4.7	23.0	115.6	14.1	16.3
2007-08	224.4	18.0	4.8	19.7	138.0	14.8	20.4
2008-09	224.5	20.5	4.4	18.7	112.1	17.2	19.3
2009-10	261.0	18.0	5.5	16.8	106.9	18.8	20.0
2010-11 PR	306.5	17.4	4.2	15.5	99.5	21.3	21.2
End-June							
2011 QE	316.9	—	4.6	15.1	99.6	21.7	21.6

PR: Partially Revised; QE: Quick Estimates. Short Term External Debt is based on Original Maturity. a. Works out to 6.3 per cent, excluding India Millennium Deposit repayments of US $ 7.1 billion and pre-payment of US$ 23.5 million.Source: Ministry of Finance, Government of India and Reserve Bank of India.*

I. Social Sector: Recent Developments and Performance of Programmes

Falling unemployment and new poverty line

1.107 The National Sample Survey Office (NSSO) conducted its 8th quinquennial survey on Employment and Unemployment in its 66th round taken up during July 2009 - June 2010. A comparative picture of unemployment rates as per the 61st round (2004-05) and 66th round (2009-10) of the NSSO Survey are given in Table 1.32:

Table 1.32 : Unemployment rates (*) NSS 61st & 66th rounds for 2004-05 & 2009-10

Approach	2004-05			2009-10		
	Rural	Urban	Total	Rural	Urban	Total
UPS	2.5	5.3	3.1	2.1	3.7	2.5
US	1.7	4.5	2.3	1.6	3.4	2.0
CWS	3.9	6.0	4.4	3.3	4.2	3.6
CDS	8.2	8.3	8.2	6.8	5.8	6.6

(*) As percent of labour force, UPS – Usual Principal Status, US- Usual Status, CWS- Current Weekly Status, CDS- Current Daily Status

1.108 The above comparison shows that a fall in unemployment rate in 2009-10 over 2004-05 in case of all the parameters. Quarterly quick employment surveys have been conducted by the Labour Bureau since January 2009 for selected sectors i.e. textile including apparel, leather, metals, automobiles, gems and jewellery, transport, information technology (IT)/business process outsourcing (BPO) and handloom/powerloom. Comparing the results of the last four quarterly surveys(i.e. July 2010 to June 2011), overall employment has increased in June 2011 over July 2010 by 10.31 lakh, for the selected sectors with the highest increase of 7 lakh in IT/BPO followed by 1.31 lakh in textiles, 0.96 lakh in metals, 0.78 lakh in automobiles,0.16 lakh in transport, 0.13 lakh in leather and 0.05 lakh in gems & jewellery.

2. Poverty Line

1.109 The Planning Commission constituted an Expert Group in December 2005 under the chairmanship of Professor Suresh D. Tendulkar to review the methodology for estimation of poverty. The Expert Group submitted its report in December 2009. In the calculation of poverty line Tendulkar Committee took the urban headcount ratio of 25.7% in 2004-05, arrived at by following Lakdawala methodology, as the starting point. It used Mixed Recall period (MRP) based MPCE corresponding to this ratio as the new reference Poverty Line Basket (PLB) in urban areas and recommended that the rural poverty line should be recomputed to reflect money value in rural areas of the same PLB. On applying price increase using Consumer Price Inded for Industrial Workers (CPI-IW) for urban areas and Consumer Price Index for Agricultural Labourers (CPI-AL) for rural areas at all India Level, which are readily available, to the Tendulkar Report poverty line of 2004-05 the poverty line at June, 2011 price level has been estimated at ₹ 965 in urban areas and ₹ 781 in rural areas.

1.110 It has been announced by a joint statement of Depty Chairman, Planning Commission and the Union Minister of Rural Development on 3rd October, 2011 that the present state wise poverty estimates based on Planning Commission's methodology will not be used to impose any ceiling on the number of households to be included under different government programmes & schemes. The Ministry of Rural Development is coordinating the Socio-Economic Caste Census (SECC). After this is available, the eligibility and entitlement of the rural household for the central schemes wil be determined.

Performance of Programmes

Developmental schemes proceeding apace

1.111 The progress under major programmes of the Government of India is as under:

Mahatma Gandhi National Rural Employment guarantee Scheme (MGNREGS): This Scheme has been provided a sum of ₹40,000/- crore in the budget of the current financial year 2011-12. As per reported performance during 2011-12 (upto September 2011) by the States, against the available funds of ₹32151.77 crore, the expenditure incurred is ₹14081.19 crore which accounts for 44 per cent. A total of 3.08 crore households have been provided employment of 86.07 crore persondays during this period. The share of SCs, STs and Women is 23 percent, 18 percent and 51 percent respectively. The share of women in persondays is well above the stipulation of 1/3 as per the Act.

1.112 Pradhan Mantri Gram Sadak Yojana (PMGSY) :Under this scheme, 79,938 habitations (73% of the sanctioned habitations) have been provided all weather road connectivity till August, 2011. It is targeted to connect 54,648 habitations through good all weather roads under 'rural roads' components of Bharat Nirman. Proposals for connecting 53,570 habitations have been cleared upto August, 2011.Out of 53,570 habitations sanctioned, 41,107 habitations (77%) have been connected upto August, 2011. Projects for connecting 12,463 habitations are at different stages of completion. A length of 2,26,790 Km. existing rural roads have been upgraded/renewed upto August, 2011 against the target of 1,94,130 Km. Under PMGSY, projects for ₹1,19,164 cr. have been sanctioned and ₹89,180 cr. has been released to the States/UTs/agencies till August, 2011.

1.113 Indira Awas Yojana : During the current financial year, Rs.10,000/- crore were allocated for Rural Housing, out of which ₹ 9,461crore were earmarked for release to District Rural Development Agencies under Indira Awas Yojana (IAY) for construction of 27.27 lakh houses. Upto the month of September, 2011, ₹4436.49 crore have been released and 6.15 lakh houses have been constructed upto August, 2011.

1.114 Swarnajayanti Gram Swarozgar Yojana (SGSY): Central allocation of SGSY/ National Rural Livelihoods Mission (NRLM) is ₹2914 crore during the financial year 2011-12 which is a major self-employment programme. Out of this central subsidy for the States and UTs is ₹2191.00 crore. The central release amounts to ₹1107.14 crore upto September, 2011. Out of the total Swarozgaries of 4.04 lakhs, 3.46 lakh Swarozgaries have been covered under self-help groups and 0.58 lakh are individual assisted Swarozgaries. The percentage coverage of SCs is 36.92, STs is 13.93, Minorities is 11.86, women is 66.46 and physically challenged is 1.43 respectively.

1.115 National Rural Health Mission (NRHM) : Keeping in view the health related needs of the poor and the disadvantaged section of the society, a provision of ₹17,840 crore (around 67 per cent of the budgeted amount for health) has been made for NRHM during 2011-12. It is being operationalized throughout the country. 1.4 lakh health human resouces including 11880 doctors/specialists, 11072 AYUSH doctors, 66731 ANMs, 33790 staff nurses, 20159 paramedical staff including AYUSH paramedics were added to strengthen the health care delivery system in the country. Accrediated Social Health Activists (ASHAs) are engaged in each village/large habitation in the ratio of one per 1000 population. Till September, 2011, 8.55 lakh ASHAs have ben selected in the entrre country out of which 8.07 lakh have been given the orientation training and engaged. Further, 7.41 lakh ASHAs have been provided with drug kit as well. 24x7 services at the 8243 PHCs were made available that accounts for 35 per cent of the total PHCs.

1.116 Under Janani Suraksha Yojana (JSY), cash incentives are provided to mothers to promote institutional deliveries. In 2010-11, the total number of JSY beneficiaries was 113.39 lakh. This has improved the institutional deliveries in the country. Integrated Management of Neonatal & Childhood Illness (IMNCI) is being implemented in 499 districts and 46.51 lakh children are fully immunized so far during 2011-12 (up to June).

1.117 Over 2.51 crore smart cards have been issued under Rashtriya Swasthya Bima Yojana as per information available till 11/11/2011. Total hospitalisation has been reported at 26.779 lakh. Janani Shishu Suraksha Karyakram has been launched on 1st June 2011 to provide completely free and cashless services to pregnant women including normal deliveries and caesarean operations and sick new born (up to 30 days after birth) in Government health institutions in both rural & urban areas. In order to reach out to difficult, inaccessible, backward and under-served areas having poor health indicators, 264 high focus districts in 21 States have been identified based on the health indicators, concentration of SC/ST population and presence of Left Wing Extremism for focused attention. Government of India has introduced

Mother and Child Tracking System which will provide complete data of the mothers with their addresses, telephone numbers, etc. for effective monitoring the ante-natal and post-natal checkup of mothers and immunization services.

1.118 Rajiv Gandhi National Drinking Water Mission: National Rural Drinking Water Programme(NRDWP) which aims to ensure drinking water security for all households in rural India has a plan outlay of ₹9350 crore for 2011-12. It covered 11703 partially covered habitations at the end of previous quarter i.e. September 2011 against the annual target of 115379 habitations.

1.119 Some important programmes launched in the education sector earlier, viz. the Sarva Shiksha Abhiyan supported by the Mid Day Meal Scheme, were intended to ensure provision of elementary education to all children in the 6-14 age group. Under the Mid Day Meal Programme 10.46 crore children are provided hot cooked meal in 12.63 lakh schools in the country. 11.26 lakh schools have been provided with kitchen devices and 26 lakh cook-cum-helpers have been appointed by the State to prepare and serve the mid day meals to the school children. 5.72 lakh kitchen-cum-stores have been constructed to ensure safety of foodgrains and provisioning of hygienic and nutritious meals to the children. An intensive programme for providing health care to the school children has been undertaken in collaboration with the National Rural Health Mission. A sum of ₹10380 crore has been earmarked for the programme in the current financial year. The Government revised the Mid Day Meal Scheme in 2009-10 to incorporate upward revision of food norm for upper primary children, enhancement of cooking cost for supply of pulses, vegetables, oils, salt & condiments and fuel, separate provision of honorariumof ₹1000/- per month to each cook-cum-helper etc.

1.120 Right of Children to Free and Compulsory Education (RTE) Act, 2009 provides free and compulsory education to all children of the age of 6 to 14 years. So far, 22 States have notified RTE Rules. Several initiatives were taken at the State level to support the RTE Act at State level. Developments since RTE enactment include the notification of the Central Rules titled "The Right of Children to Free and Compulsory Education Rules, 2010 in the Official Gazette on 9th April, 2010. A committee has been set up to prepare Model Rules under the RTE Act. The Model Rules were shared with the States. The Government had set up a Committee on the Implementation of RTE and the resultant revamp of SSA. Based on the Committee's Report, Government has revised the SSA norms.

1.121 In vocational education, the working document for National Vocational Education Qualifications Framework (NVEQF) has been prepared by the Coordination Committee constituted for the purpose. 10 NVEQ levels, starting from Class IX, have been laid down. It has been decided to launch the pilots for the NVEQF in Class IX in 2011-12 in Haryana and West Bengal. The revised Centrally Sponsored Scheme (CSS) "Vocationalisation of Secondary Education" was approved by Government on 15.9.2011 provides assistance for imparting vocational education in Classes XI –XII in mainstream schools.

1.122 Rashtriya Madhyamik Shiksha Abhiyan is about universalization of secondary education and is the other important goal in view of the fact that there is an increase in the number of students moving upward from elementary education to secondary level. The goal of universal access by 2017 and universal retention by 2020 is to be achieved through the Rashtriya Madhyamik Shiksha Abhiyan (RMSA), which focuses on increasing enrolment at secondary level by strengthening existing schools, opening new secondary schools, and appointment of teachers, improving quality of education imparted at secondary level through making all secondary schools conform to prescribed norms, removal of gender, socio-economic and disability barriers. RMSA has been operational from 2009-10. Since inception of the scheme, opening of 9799 new schools, strengthening of 35547 existing secondary schools and 52352 additional teachers have been sanctioned.

1.123 Model School Scheme a scheme for setting up of 6,000 Model Schools at block level, at the rate of one school per block as benchmark of excellence, was launched in November, 2008. The scheme has two modes of implementation, viz. (i) 3,500 schools are to be set up in educationally backward blocks (EBBs) through State/UT Governments; and (ii) the remaining 2,500 schools are to be set up under Public-Private Partnership (PPP) mode in blocks which are not educationally backward. At present, only the component for setting up Model Schools in EBBs through State/UT Governments is operational. Since the inception of the scheme, approval has been given for setting up 1,826 Model Schools in 20 States. Financial sanctions have been accorded for setting up 1,469 schools in 19 States and an amount of ₹1,554.59 crore has been released (upto 31.10.2011) as central share to these States.

1.124 Saakshar Bharat (SB) is the new variant of the programme format of National Literacy Mission. The principal target of the Mission is to impart, by 2012, functional literacy to 70 million adults in the age group of 15 years and beyond. Auxiliary target of the Mission is to cover 1.5 million adults under Basic Education (Equivalency) programme and equal number under Vocational Training (skill development) programme. By the end of March 2011, about 2 lakh literacy classes enrolling about 20 lakh learners were functioning in Andhra Pradesh (1,35,634), Karnataka (35,647), Chhattisgarh (13,048), Tamil Nadu (2,068), Gujarat (3,875), Rajasthan (2,354), Uttarakhand (2176), Jharkhand (516) and West Bengal (962).

1.125 The growth of enrolment in higher education was decelerating up to 2003–04 and remained more or less constant for the next three years at around 5.2 per cent per annum. It improved to 6.6 per cent in 2007–08 and recorded a much faster increase of 13.5 per cent in the second year of the Eleventh Plan (2008–09). Going by the projections, it is possible to achieve 15% Gross Enrolment Ratio (GER) by 2011-12. Though the overall demand for higher education in India is increasing, there are wide variations in GER across States. There are 23 States whose GER at the higher education level lies below the national average. Similarly, in terms of spread of higher education institutions, there is a vast difference. There are 8 states which account for about 70% of the total number of Universities & Colleges.

1.126 Several new legislative proposals are in the pipeline aimed at restructuring the higher education system which include proposal for establishment of the National Commission for Higher Education and Research (NCHER) as an overarching regulatory body for higher education; a mandatory accreditation system to ensure quality assurance and certification of institutions and programmes of study and creation of a national accreditation regulatory authority; setting up educational tribunals at national and state levels for providing speedy and fast track adjudication of disputes related to education institutions and concerned stake holders; regulation of entry and operation of foreign education providers; prevention of unfair practices in technical and medical education institutions and universities; academic depository bill for creating a national data base of academic awards in electronic format and amendments to the Copyright Act. The proposed NCHER is expected to subsume the roles of University Grants Commission, All India Council for Technical Education and other regulatory bodies.

1.127 Several new schemes are being implemented so as to ensure greater inclusion and promotion of equity in higher education. These include, *inter-alia*, construction of girls hostels, reservation for SCs, STs and OBCs, focus on backward, hilly and remote locations, facilitating greater participation of students from minorities, girls and persons with disabilities, scholarships, provision of education loans with interest free subsidy, setting up of polytechnics in unserved areas and degree colleges in low GER districts. The National Mission in Education through ICT is aimed at providing high speed broadband connectivity to universities and colleges and development of e-content in various disciplines. Open and distance learning is encouraged to increase access and make quality education available at any time, any place mode. Strengthening Indian languages, National Translation Mission, book promotion, intellectual property rights are other areas of emphasis in higher education. Internationalisation and collaborative arrangements, setting up UNESCO Category – I institute are other initiatives in extending the global reach of education.

1.128 The National Skill Development Corporation (NSDC) set up as a part of the three tier Skill Development Mission has been mandated to achieve the target of skilled workforce of 150 million persons by 2022 under the National Skill Development Policy. NSDC has so far approved ₹1112.97 crore for 37 projects and has disbursed ‘110.89 crore, which will eventually create 56.5 million skilled workforce. This will also create training capacity of 11.2 million skilled workforce. The Corporation is also mandated with the formation and the governance of the Sector Skills Councils (SSCs) involving private sector. Sector Skills Council will pay a key role in development of curriculum, certification and accreditation which meet industry standards. NSDC has so far funded six projects on formation of sector skill councils.

1.129 Unique Identification Authority of India (UIDAI) is expected to bring in efficiency in service delivery mechanism and reducing corruption, leakage and wastefulness in every public sphere. A total of over 10 crore residents have been enrolled into the system while 6.11 crore Aadhar numbers have been generated by 3rd November 2011.

CHAPTER II

Central Government Finances

A. Review of trends in receipts and expenditure during April-September 2011

2.1 Budget 2011-12 was presented against the backdrop of a robust revival in the Indian economy with growth at 8.5 per cent in 2010-11 on top of an 8.0 per cent growth in 2009-10. After two years of fiscal expansion in 2008-09 and 2009-10 to boost growth, these signs of recovery provided confidence for resumption of the fiscal consolidation process. A calibrated strategy to exit from expansionary fiscal policy was unveiled in the Budget 2010-11. The actual outcome in respect of the key indicator fiscal deficit/GDP ratio was placed at 4.7 per cent of GDP for 2010-11 as per the provisional accounts of the Controller General of Accounts (CGA). This is a marked improvement over the fiscal deficit of 6.4 per cent of GDP achieved during 2009-10. However, global economic events are not giving conducive signals for a similar outcome in 2011-12. Uncertainty around the world and certain domestic factors have impacted on the Indian economy, which has resulted in moderation of GDP growth during the first half of 2011-12.

2.2 Fiscal deficit has been estimated at 4.6 per cent of GDP in the Budget 2011-12. This is an improvement over the commitment made (4.8 per cent of GDP) in the Medium Term Fiscal Policy Statement presented along with the Union Budget 2010-11 as well as that suggested by the 13th Finance Commission. The revenue deficit was estimated at 3.4 per cent of GDP for the year 2011-12. This component is showing some structural rigidity and is not coming down significantly. However, 'effective revenue deficit', which represents imbalance in revenue account after netting grants used for creation of capital assets has been estimated at 1.8 per cent of GDP in BE 2011-12. It is the endeavor of the Government to eliminate this imbalance in revenue account.

2.3 During the first half of 2011-12 fiscal deficit and revenue deficit are placed at 68.0 per cent and 72.2 percent of the Budget Estimates (BE) for 2011-12, respectively. When compared to performance during the corresponding period of 2010-11 (34.9 per cent of BE 2010-11) and five years moving average (54.6 per cent of respective BE), the proportion of fiscal deficit to GDP is at an elevated level in 2011-12. The better than usual performance during 2010-11 may be seen in the context of the one off nature of receipts of about 1.3 per cent of GDP during the first quarter from the auction of 3G and Broadband Wireless Access (BWA) spectrum. Larger deficit during first half in 2011-12 when compared to five years moving average may also be seen in the context of front loading of direct tax refunds which is explained in a later section. The fiscal performance of first half indicates that it would be a challenge for the Government to meet the deficit targets as set in the Budget Estimates.

2.4 Fiscal deficit and revenue deficit as proportion of Budget Estimates have exceeded the threshold levels of 45 per cent of Budget Estimates (BE) for the first half of 2011-12 as mandated under the FRBM Rules 2004. Non-debt receipts at 37.7 per cent of BE in 2011-12 is below the mid-year benchmark level of 40 per cent of BE. These deviations are largely on account of higher refunds in direct taxes and non-realization of disinvestment proceeds in proportionate terms during the first half of 2011-12.

2.5 Trends in receipts and expenditure at the end of the second quarter of year 2011-12 (April-September, 2011) is summarised in Table 2.1. The figures therein are unaudited and may undergo revision subsequent to audit. The receipts and recoveries, wherever directly linked to expenditure, have been netted out.

Table 2.1
Budgetary position April-September 2011-12

		2011-12 B.E.	April-September 2011-12	April-September 2010-11	2011-12 Actuals as a percentage of B.E. (col. 3 as per cent of col. 2)	Increase over previous year (col. 3 over col. 4) (per cent)
		₹ crore				
	1	2	3	4	5	6
1.	**Revenue Receipts**	**7,89,892**	**3,05,528**	**3,98,234**	**38.7**	**-23.3**
2.	Tax Revenue (Net)	6,64,457	2,54,731	2,33,415	38.3	9.1
3.	Non-Tax Revenue	1,25,435	50,797	1,64,819	40.5	-69.2
4.	**Capital Receipts (5+6+7)**	**4,67,837**	**2,93,565**	**1,39,743**	**62.7**	**110.1**
	Non Debt Capital Receipts	**55,020**	**12,755**	**6,491**	**23.2**	**96.5**
5.	Recovery of Loans	15,020	10,024	4,256	66.7	135.5
6.	Other Receipts	40,000	2,731	2,235	6.8	22.2
7.	**Borrowings and other liabilities**	**4,12,817**	**2,80,810**	**1,33,252**	**68.0**	**110.7**
8.	**Total Receipts (1+4)**	**12,57,729**	**5,99,093**	**5,37,977**	**47.6**	**11.4**
9.	**Non-Plan Expenditure**	**8,16,182**	**4,21,270**	**3,68,270**	**51.6**	**14.4**
10.	On Revenue Account	7,33,558	3,76,275	3,28,308	51.3	14.6
	of which					
11.	Interest Payments	2,67,986	1,22,499	1,02,779	45.7	19.2
12.	On Capital Account	82,624	44,995	39,962	54.5	12.6
13.	**Plan Expenditure**	**4,41,547**	**1,77,823**	**1,69,707**	**40.3**	**4.8**
14.	On Revenue Account	3,63,604	1,51,033	1,44,847	41.5	4.3
15.	On Capital Account	77,943	26,790	24,860	34.4	7.8
16.	**Total Expenditure (9+13)**	**12,57,729**	**5,99,093**	**5,37,977**	**47.6**	**11.4**
17.	Revenue Expenditure (10+14)	10,97,162	5,27,308	4,73,155	48.1	11.4
	of which					
18.	Grants for creation of Capital Assets	1,46,853	51,411	16,678	35.0	208.3
19.	Capital Expenditure (12+15)	1,60,567	71,785	64,822	44.7	10.7
20.	**Revenue Deficit (17-1)**	**3,07,270**	**2,21,780**	**74,921**	**72.2**	**196.0**
21.	**Fiscal Deficit {16 –(1+5+6)}**	**4,12,817**	**2,80,810**	**1,33,252**	**68.0**	**110.7**
22.	**Primary Deficit (21 – 11)**	**1,44,831**	**1,58,311**	**30,473**	**109.3**	**419.5**

Source: *Figures released by Controller General of Accounts for period April-September 2011; 2010-11 figures are provisional.*

B. Receipts
Revenue Receipts

2.6 The revenue receipts which consists of net tax revenue and non-tax revenue of Centre were estimated at ₹ 7,89,892 crore in BE 2011-12 reflecting a decline of 0.6 per cent over provisional actuals of 2010-11. This was on account of the one-off nature of proceeds from 3G and BWA spectrum auction during 2010-11. After netting off the impact of these one-off receipts, the required growth to achieve BE 2011-12 is 14.8 per cent. Revenue receipts at ₹ 3,05,528 crore during first half of 2011-12 reflect a decline of 23.3 per cent over corresponding period in 2010-11. This sharp decline as explained earlier is due to the one-off receipts and second, front loading of direct tax refunds during the first half of 2011-12. Refunds of about ₹ 62,230 crore were made in the first half of the current fiscal when compared to ₹ 27,657 crore during the first half of 2010-11. After adjusting for these two factors, the growth in total revenue receipts during the first half of 2011-12 is 15 per cent over the corresponding period in 2010-11. This is in line with the targeted growth of 14.8 per cent which is required over the actual of 2010-11 for achieving BE 2011-12.

2.7 Revenue receipts at ₹ 3,05,528 crore during first half of 2011-12 are 38.7 per cent of B.E. 2011-12 (Table 2.2). This is lower than the five year moving average of 43.9 per cent of respective BE mainly on account of higher than the trend growth in direct tax refunds for the first half of 2011-12. Gross tax revenue (net of refunds) in BE 2011-12 was estimated at 17.3 per cent over the actual receipts of 2010-11 (provisional). However, the performance during first half is not in line with BE due to front loading of direct tax refunds during the reporting period. Gross tax revenue (net of refunds) has increased from ₹ 3,24,397 crore at the end of September, 2010 to ₹ 3,69,353 crore during the first half of 2011-12 reflecting an increase of 13.9 per cent. However, growth in gross tax receipts prior to direct tax refunds is 22.6 per cent, which is better than targeted growth of 17.3 per cent to achieve BE. The detailed analysis of various components of tax revenue is given in the following section. Non tax revenue receipts during April-September, 2011 is ₹ 50,797 crore as against ₹1,64,819 crore received during first half of 2010-11 including ₹ 1,06,000 crore from 3G spectrum and BWA auction proceeds. It amounts to 40.5 per cent of B.E 2011-12.

Table 2.2
Revenue receipts in April-September

(₹ crore)

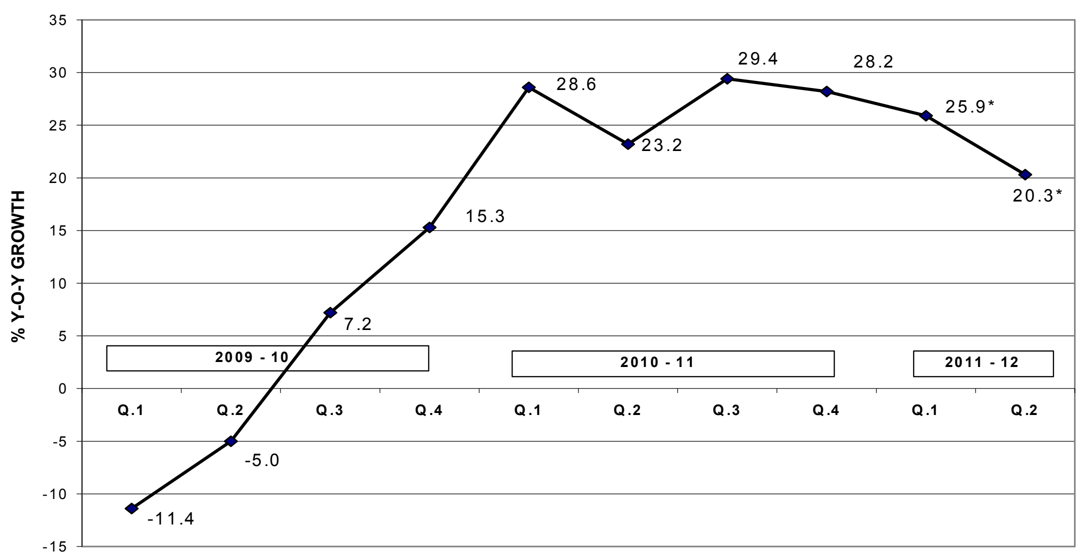
		April-September					
REVENUE RECEIPTS		**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
1	Tax Revenue (Net)	129986	160500	202247	185669	233415	254731
2	Non-Tax Revenue	31420	37456	42651	58802	164819	50797
3	Total	161406	197956	244898	244471	398234	305528
4	BE for the full year	403465	486422	602935	614497	682212	789892
5	Item 3 as percentage of item 4	40.0	40.7	40.6	39.8	58.4	38.7
6.	Item 3 as Percentage of GDP	3.8	4.0	4.4	3.7	5.1	3.4

Gross Tax Revenue

2.8 As indicated earlier, direct tax refunds in the current financial year were front loaded. During the first half of 2011-12 direct tax refunds were ₹ 62,230 crore as against ₹ 27,657 crore during the corresponding period of 2010-11. Therefore, any year-on-year analysis on tax collection during the first half of 2011-12 needs to factor in the refund component to arrive at a more realistic comparison. The required growth for achieving gross tax collection in 2011-12 BE was 17.3 per cent over 2010-11 actual collections (Table 2.3). Prior to the refunds in direct taxes, overall growth in tax collection (all taxes) up to September 2011 is 22.6 per cent. Assuming direct tax refunds during the year at 120 per cent of the level of 2010-11 refunds, overall growth of 14.0 per cent would be required during the second half of 2011-12 to achieve BE.

2.9 This required growth of 14 per cent, though seemingly achievable when compared to first half performance, is actually more challenging in view of moderation in the growth of the economy as well as on account of reduction in duties on petroleum products during the first quarter of this fiscal. Almost all the major components[1] of tax revenue, except Union Excise Duty (largely due to duty reduction on diesel), have shown better than estimated growth during the first half of 2011-12 (Chart -1)

CHART -1 : GROSS TAX REVENUE



* 2011-12 is prior to direct tax refunds

[1] *For comparing growth in tax revenue, direct tax, refunds have been added for better trend analysis*

Table 2.3

Components of Gross Tax Revenue

	2011-2012				2010-2011		
	B.E	Actuals up to September 2011	per cent of B.E.	per cent growth over September 2010	B.E.	Actuals up to September 2010	per cent B.E.
	(₹ crore)				(₹ crore)		
1. Corporation Tax	359990	127375	35.4	3.4	301331	123161	40.9
1a. Corporation Tax (inclusive of refunds)		176610		23.4		143166	
2. Taxes on income other than Corporation Tax	164526	66249	40.3	17.3	120566	56480	46.8
2a. Taxes on income (inclusive of refunds)		79244		23.6		64132	
3. Customs	151700	74808	49.3	22.5	115000	61051	53.1
4. Union Excise Duties	164116	59315	36.1	13.9	132000	52058	39.4
5. Service Tax	82000	37049	45.2	37.5	68000	26936	39.6
6. Other taxes	10108	4557	45.1	-3.3	9754	4711	48.3
Total Gross Tax Revenue	**932440**	**369353**	**39.6**	**13.9**	**746651**	**324397**	**43.4**
Total Gross Tax Revenue (with direct tax refunds)		**431583**		**22.6**		**352054**	

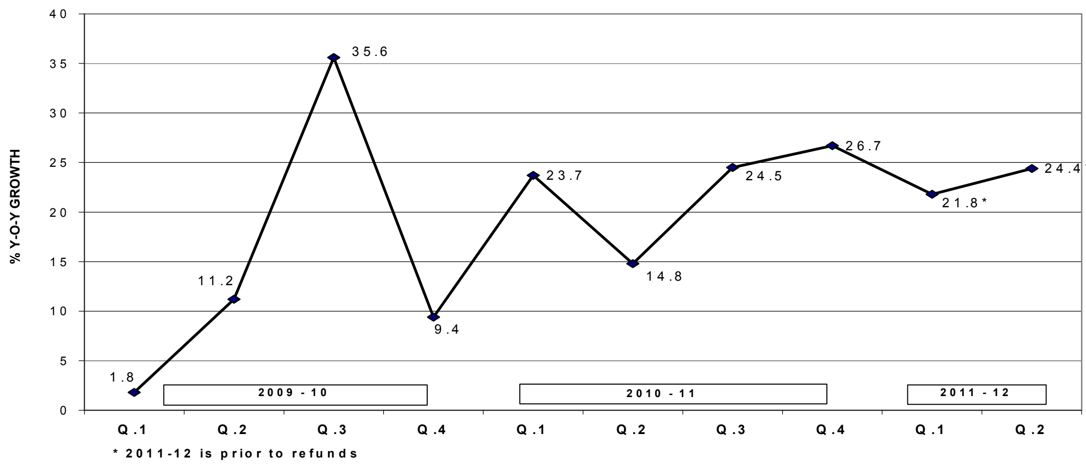
Direct Taxes

2.10 The gross direct tax collection (net of refunds) has increased by 7.4 per cent to a sum of ₹1,96,622 crore for April-September, 2011 over April-September, 2010 (₹1,83,066 crore). However, direct tax collection (prior to refunds) during the first half of 2011-12 shows better than estimated growth of 22.8 per cent over the corresponding period of 2010-11. As the likely refunds during the year would not exceed 120 per cent of 2010-11 refunds, the required growth in direct taxes during the second half of 2011-12 to achieve Budget Estimate targets would be 16.9 per cent. Going by the past trends, the fiscal year target appears achievable. However, both upside and downside risks associated with prevailing uncertainty in the global economy may impact eventual performance.

Corporation Tax

2.11 Corporation tax (prior to refunds) at ₹1,76,610 crore continues to be the largest component of total taxes. During the first half of 2011-12, it shows a growth of 23.4 per cent over collections during the same period in 2010-11. The BE 2011-12 for this component was estimated at growth of 20.2 per cent over the actual receipts in 2010-11. Trends in year on year growth for different quarters in collection of Corporation Tax for 2010-11 and 2011-12 are indicated in chart 2 below:

CHART -2 : CORPORATION TAX

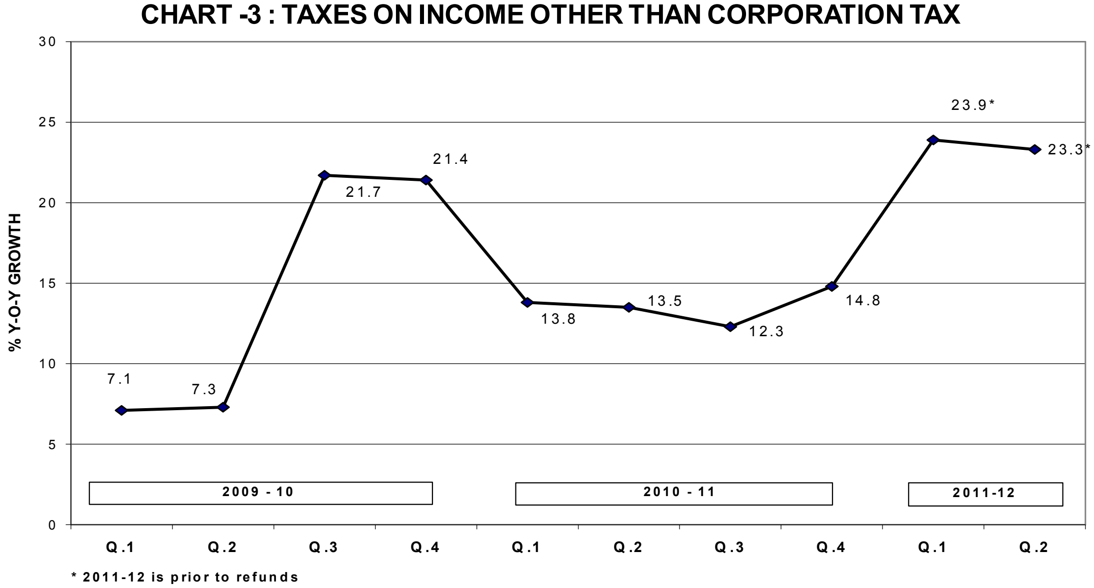


Income Tax other than Corporation Tax

2.12 Taxes on income other than Corporation tax were estimated at ₹1,64,526 crore in 2011-12 BE which is 18.2 per cent higher than receipts during 2010-11. Actual collections (inclusive of refunds) of ₹ 79,244 crore during the first half of the year 2011-12 reflect a growth of 23.6 per cent over collections during corresponding period in the previous financial year.

2.13 In all likelihood, the receipts under this component of tax may be better than BE. Trends in year on year growth for different quarters in collection of Taxes on Income other than Corporation Tax for 2009-10, 2010-11 and 2011-12 are indicated in chart 3 below:

CHART -3 : TAXES ON INCOME OTHER THAN CORPORATION TAX



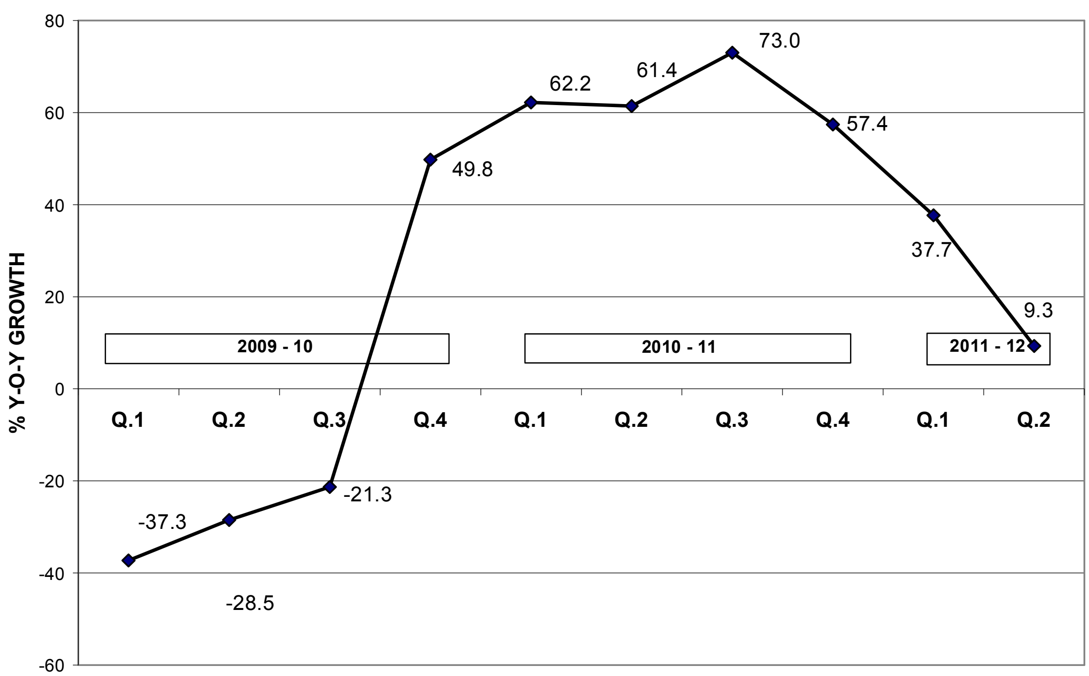
Indirect Taxes

2.14 The gross indirect tax collection during first half of 2011-12 is ₹1,72,730 crore reflecting a growth of 22.2 per cent over collections during April-September, 2010 as against estimated growth of 14.2 per cent in BE 2011-12 over provisional actuals of 2010-11. This shows that for the remaining period of this financial year, growth of 8.8 per cent would suffice to meet the Budget Estimate targets for 2011-12. The overall indirect tax collection has done significantly better than the estimated receipts in BE 2011-12 during the first half even after significant duty reduction for crude and petroleum products implemented during the financial year.

Customs

2.15 The performance on customs duties collection during the first half of 2011-12 shows a healthy trend. For this component, BE 2011-12 was estimated at ₹1,51,700 crore reflecting a growth of 11.5 per cent over actuals of 2010-11. Receipts under this component have increased by 22.5 per cent in the first half of 2011-12 over the corresponding period in 2010-11. Higher than estimated growth during the first half of 2011-12 implies that only growth of 2.5 per cent would be required during the remaining period of the financial year to achieve the Budget Estimate target. The growth in customs duty collection at 22.5 per cent is even more commendable when seen in the context of higher base effect during the first half of 2010-11 when it grew by more than 60 per cent and change in duty structure for petroleum products during the current year. Trends in year on year growth for different quarters in collection of customs duties for 2009-10, 2010-11 and 2011-12 are indicated in chart 4 below.The collection in the first half of 2011-12 is 49.3 per cent of BE 2011-12.

CHART -4 : CUSTOMS DUTY

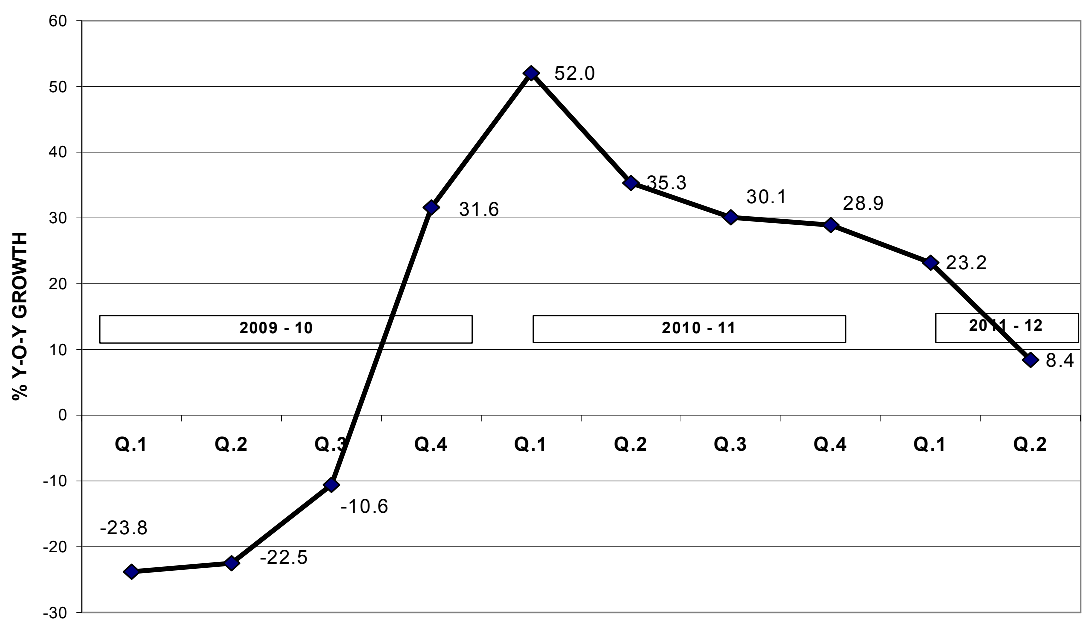


With robust trend in non-POL imports, it is likely that receipts under customs may exceed BE 2011-12.

Union Excise Duties

2.16 Revenue from Union excise duties was estimated at ₹1,64,116 crore in BE 2011-12 reflecting a growth of 18.6 per cent over actual collection of 2010-11. The increase was estimated on the basis of continued better performance of manufacturing sector and likely demand in the economy. However, during the course of the year the Government had to reduce excise duty on petroleum products to reduce the economic burden on consumers and at the same time to safeguard the interest of oil marketing companies. These decisions resulted in significant foregone revenue collection. In the first half of 2011-12, the receipts under Union excise duties is ₹ 59,315 crore reflecting a growth of 13.9 per cent over the collections in the corresponding period of 2010-11 (₹ 52,058 crore) and is 36.1 per cent of BE 2011-12. Lower than estimated growth is also due to moderation in the growth in the manufacturing sector. Trends in year on year growth for different quarters in collection of Excise Duty for 2009-10, 2010-11 and 2011-12 are indicated in chart 5 below.

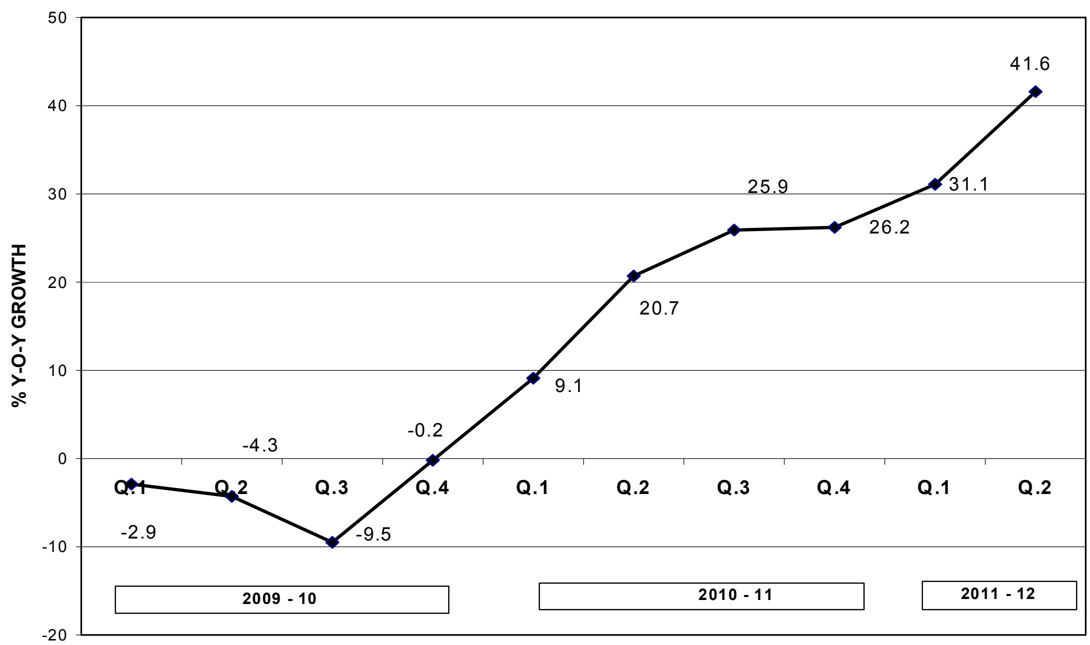
CHART -5 : UNION EXCISE DUTIES



Service Tax

2.17 Service Tax in BE 2011-12 was estimated at ₹ 82,000 crore reflecting a growth of 15.0 per cent over receipts in 2010-11. In the first half of the current fiscal, the receipts are at ₹ 37,049 crore reflecting a growth of 37.5 per cent over the collections made in the corresponding period of 2010-11 (₹ 26,936 crore). The amount collected during April – September, 2011 constituted 45.2 per cent of BE 2011-12. Higher than estimated growth during the first half of 2011-12 implies that only growth of 1.3 per cent would be required during the remaining period of the financial year to achieve the Budget Estimate target. This would mean that in all likelihood, Service Tax receipts would exceed the BE 2011-12 target and thereby reduce the impact of likely revenue shortfall under Union excise duties component. Trends in year on year growth for different quarters in collection of Service Tax for 2009-10, 2010-11 and 2011-12 are indicated in chart 6 below.

CHART -6 : SERVICE TAX



Non Tax Revenue

2.18 Non tax revenue receipts up to April-September 2011 is placed at ₹ 50,797 crore amounting to 40.5 per cent of B.E. 2011-12 showing a decline of 69.2 per cent over receipts during corresponding period of previous financial year. This is mainly on account of higher receipts from proceeds of telecom 3G spectrum and BWA auctions during 2010-11.

Non-debt Capital Receipts

2.19 The receipts on account of recoveries of loans in the current fiscal was ₹ 10,024 crore up to September 2011 compared to ₹ 4,256 crore during the corresponding period of previous financial year. This is 66.7 per cent of B.E. for the current year. Disinvestment receipt and Miscellaneous receipt for current year are ₹ 2,731 crore against ₹ 2,235 crore during the corresponding period of previous financial year. With the present trend and prevailing scenario in the capital market, achieving the disinvestment target of ₹ 40,000 crore during the remaining period of 2011-12 would be a stiff task.

C. Expenditure

Total Expenditure

2.20 Total expenditure for 2011-12 is estimated at ₹12,57,729 crore in BE 2011-12 (14 per cent of GDP), up by 4.9 per cent over actual expenditure of ₹11,98,919 crore in 2010-11. Growth in plan expenditure is estimated at 17 per cent over the actuals of 2010-11. However, non-plan expenditure is estimated to decline by 0.7 per cent over the actuals of 2010-11. The overall modest increase in expenditure is due to certain one-timers in 2010-11 and non-requirement for higher provisions in certain schemes. For example, under the Farmers Debt Relief Scheme, against the transfer of ₹16,000 crore to the Farmers' Debt Relief Fund during 2010-11, only ₹2,000 crore is required during 2011-12 to take care of the residual requirements. Similarly, BE 2011-12 under Other Communication Services and Non Plan Capital Outlay is lower than RE 2010-11 due to shifting of Universal Service Obligation Fund, certain capital expenditure of Police and Bank recapitalization to Plan side for better classification. Further, Loans to PSUs saw a spike in RE 2010-11 due to short term loan of ₹ 5,000 crore given to FCI which is required to be repaid during 2011-12. Total expenditure during April-September 2011 at ₹ 5,99,093 crore amounts to 47.6 per cent of B.E 2011-12 which is in line with the five years moving average of 46.1 per cent of respective BE. Total expenditure in the first half of 2011-12 reflects a growth of 11.4 per cent in expenditure over ₹ 5,37,977 crore during the same period in the previous financial year.

2.21 Revenue expenditure for 2011-12 is estimated at ₹10,97,162 crore (12.2 per cent of GDP), up by 5.6 per cent over actual expenditure of ₹10,39,130 crore in 2010-11. During first half of 2011-12, this has gone up from ₹4,73,155 crore in 2010-11 to ₹ 5,27,308 crore reflecting a growth of 11.4 per cent. Revenue expenditure upto September 2011 amounts to 48.1 per cent of the estimated revenue expenditure during 2011-12 which is in line with the 5 years moving average of 47.6 per cent of respective BE.

2.22 Capital expenditure for 2011-12 is estimated at ₹1,60,567 crore (1.8 per cent of GDP), up by 0.5 per cent over actual expenditure of ₹1,59,789 crore in 2010-11. This lower growth in BE 2011-12 may be seen in the context of higher expenditure during 2010-11 on account of equity infusion in Public Sector Banks (₹ 20,117crore) to take government equity in these entities to 58 per cent & ₹1,430 crore to other financial institutions and also one time short term loan to Food Corporation of India (₹5,000 crore) for their procurement operation. Capital expenditure during April-September 2011 is ₹71,785 crore as against ₹64,822 crore during the same period in 2010 reflecting a growth of 10.7 per cent (Table 2.4). Capital expenditure during the first half of 2011-12 is 44.7 per cent of the estimated capital expenditure for the year 2011-12 and is higher than five years moving average of 35.8 per cent of respective BE.

Table 2.4
Trends in expenditure in April-September

(₹ crore)

		April-September					
EXPENDITURE		**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
1	Revenue Expenditure	230683	259080	323211	409454	473155	527308
2	Capital Expenditure	21261	58812*	25870	39394	64822	71785
3	Total Expenditure	251944	317892	349081	448848	537977	599093
4	BE for the full year	563991	680521	750884	1020838	1108749	1257729
5	Item 3 as percentage of item 4	44.7	46.7	46.5	44.00	48.5	47.6
6	Item 3 as Percentage of GDP	5.9	6.4	6.3	6.9	6.8	6.7

**This includes onetime expenditure of ₹ 35,531 crore on account of payment to RBI for acquisition of its stake in SBI*

Plan Expenditure

Plan expenditure during 2011-12 is estimated at ₹4,41,547 crore reflecting growth of 17.0 per cent over the provisional actuals of 2010-11. Plan expenditure of ₹1,77,823 crore during the first half of 2011-12 shows a moderate growth of 4.8 per cent over the corresponding period during 2010-11 (₹1,69,707 crore) and is 40.3 per cent of BE 2011-12. This shows slightly lower pace of plan expenditure when compared to five years moving average of 42.3 per cent of respective BE. Details of variations over the previous year performance in Plan expenditure during the first half of fiscal 2011-12 for the Ministries/ Departments are shown in Appendix Table 4. Trends in plan expenditure as percentage of B.E. at the end of Q2 of respective financial years are shown below in Table 2.5.

Table 2.5
Trends in plan expenditure in April-September

(₹ crore)

		April-September					
PLAN EXPENDITURE		**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
1	Revenue	57757	71571	93727	108163	144847	151033
2	Capital	11122	15187	14725	18615	24860	26790
3	Total Plan Expenditure	68879	86758	108452	126778	169707	177823
4	BE for the full year	172728	205100	243386	325149	373092	441547
5	Item 3 as percentage of item 4	39.9	42.3	44.6	39.0	45.5	40.3
6	Item 3 as Percentage of GDP	1.6	1.7	1.9	1.9	2.2	2.0

Non Plan Expenditure

2.23 Non-plan expenditure is estimated in BE 2011-12 at ₹8,16,182 crore reflecting negative growth of 0.7 per cent over the 2010-11 actuals and constitutes 64.9 per cent of the total expenditure in BE 2011-12. The reasons for negative growth have been explained earlier. Non-plan expenditure during the first half of 2011-12 is at ₹4,21,270 crore showing a growth of 14.4 per cent over expenditure of ₹3,68,270 crore during the same period in the previous financial year. Non-plan expenditure in the first half is 51.6 per cent of the estimated expenditure during 2011-12 as against five years moving average of 47.8 per cent of BE. In absolute terms, there is increase of ₹53,000 crore in the non-plan expenditure during the first half of 2011-12 when compared to the same period in 2010-11. This increase is largely on account of three items: namely, interest payment (which has increased by ₹19,720 crore); major subsidies (which show increase of ₹17,154 crore); and defence (which has increased by ₹10,160 crore). Following table shows the growth in percentage terms of the above three items:

Non-plan items	**Expenditure during the first half (₹ in crore)**		**Growth during 2011-12 over 2010-11**
	2011-12	**2010-11**	
Major Subsidies	95190	78036	**22.0%**
Defence	75097	64937	**15.6%**
Interest payment	122499	102779	**19.2%**
Total	**292787**	**245753**	**19.1%**

2.24 Higher growth in expenditure on the above three items explains the structural problem of government finances which needs to be addressed through policy initiatives. Trends in non-plan expenditure as percentage of B.E. at the end of Q2 of respective financial years are shown below in Table 2.6.

Table 2.6
Trends in non-plan expenditure in April-September

(₹ crore)

NON PLAN EXPENDITURE		April-September 2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	Revenue Account *of which*	172926	187509	229484	301291	328308	376275
	Interest Payments	64003	72820	86061	86669	102779	122499
2	Capital Account	10139	43625*	11145	20779	39962	44995
3	Total Non-plan Expenditure	183065	231134	240629	322070	368270	421270
4	BE for the full year	391263	475421	507498	695689	735657	816182
5	Item 3 as percentage of item 4	46.8	48.6	47.4	46.3	50.1	51.6
6	Percentage of GDP	4.3	4.6	4.3	4.9	4.7	4.7

**This includes onetime expenditure of ₹ 35,531 crore on account of payment to RBI for acquisition of its stake in SBI*

Resources transferred to States/UTs

2.25 Against the B.E. of ₹ 4,56,775 crore for transfers to States/UTs, the actual resources transferred to States/UTs during the first half of 2011-12 is ₹1,88,198 crore. This shows a growth of 12.4 per cent over ₹1,67,446 crore transferred during the corresponding period in the previous financial year. States' share of Central Taxes as proportion of gross tax receipts during the first half of 2011-12 is 30.6 per cent which is higher than 27.7 per cent devolved during the corresponding period of 2010-11.

D. Deficit

2.26 In the Budget for 2011-12, fiscal deficit for the year is estimated at ₹4,12,817 crore amounting to 4.6 per cent of GDP. For the period up to September, 2011 fiscal deficit is ₹2,80,810 crore which is 68.0 per cent of BE 2011-12. Higher levels of fiscal deficit as percentage of BE during the first half of 2011-12 raises some concern when compared with five years moving average of 54.6 per cent. However, this increase in fiscal deficit may be seen in the context of front loading of direct tax refunds in the current year and one time receipt from auction of 3G & BWA spectrum during the previous year. Trends in tax revenue (inclusive of refunds) does not show any sign of slippage from the targeted level. Expenditure during the first half is in line with Budget Estimates. However, uncertainty on account of disinvestment receipts and likely higher subsidy requirement does make it a challenging task to adhere to the overall fiscal deficit target during 2011-12.

2.27 Revenue deficit for 2011-12 is estimated in the Budget at ₹3,07,270 crore amounting to 3.4 per cent of GDP. During the period April-September 2011 revenue deficit is ₹2,21,780 crore amounting to 72.2 per cent of B.E. 2011-12. Five years moving average of revenue deficit during the first half as percentage of BE is 78.9 per cent. In the current year refunds in direct taxes during the first half (₹62,230 crore) are much higher than the first half of previous years (₹27,657 crore in 2010-11). This has resulted in lower availability of net tax resources (post refunds and post devolution to States) for Centre to finance its deficit in the current year.

2.28 Trends in various deficit indicators in both actuals as well as in terms of percentage of B.E. up to the Q2 of respective financial years are shown below in Table 2.7.

Table 2.7
Trends in Deficit in April-September

(₹ crore)

	April-September					
DEFICITS	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Revenue Deficit (actuals) (Apr-Sep)	69277	61124	78313	164983	74921	221780
Revenue Deficit (BE) for the full year	84727	71478	55184	282735	276512	307270
Percentage of BE	81.8	85.5	141.9	58.4	27.1	72.2
Percentage of GDP	1.6	1.2	1.4	2.5	1.0	2.5
Fiscal Deficit (Actuals)(Apr-Sep)	86461	81200	102654	197775	133252	280810
Fiscal Deficit (BE) for the full year	148686	150948	133287	400996	381408	412817
Percentage of BE	58.2	53.8	77.0	49.3	34.9	68.0
Percentage of GDP	2.0	1.6	1.8	3.0	1.7	3.1
Primary Deficit (Actuals)(Apr-Sep)	22458	8380	16593	111106	30473	158311
Primary Deficit (BE) for the full year	8863	-8047	-57520	175485	132744	144831
Percentage of BE	253.4	-104.1	-28.8	63.3	23.0	109.3
Percentage of GDP	0.5	0.2	0.3	1.7	0.4	1.8

Financing of deficit

2.29 The deficit of ₹2,80,810 crore on Consolidated Fund of India was financed by raising net Internal Debt of ₹2,35,399 crore, net External Assistance of ₹2,368 crore, Ways and means advance/ cash draw down of ₹ 42,636 crore and public account (net) of ₹407 crore Table 2.8.

Table 2.8
Financing of Deficit

(₹ crore)

		April-September-11	**April - September-10**
	Fiscal Deficit	2,80,810	1,33,252
	Sources of Financing		
1	Internal Debt	2,35,399	1,43,250
	(a) Market Loans & Short Term Borrowings	2,77,074	1,87,499
	(b) Treasury Bills (14 days)	-35,733	-26,760
	(c) Compensation and Other Bonds	-6,803	-2,249
	(d) Others	861	-15,240
2	External Assistance including Revolving fund	2,368	11,961
3	Cash Draw Down/WMA/investment(-)	42,636	-35,583
4	Borrowings(-)/Surplus(+) on Public Account*	407	13,624

** Includes Suspense & Remittances.*

2.30 Gross and net market borrowings during the first half of 2011-12 amounted to ₹2,50,000 crore and ₹1,90,666 crore respectively, accounting for 59.9 per cent and 55.6 per cent of the estimated market borrowings for the year. During the corresponding period of the previous financial year, gross and net borrowings accounted for 62.1 per cent and 58.2 per cent of budget estimates, respectively. The weighted average maturity of dated securities issued upto the end of first half of the fiscal year 2011-12 (Apr-Sep) at 12.19 years was higher than 11.25 years during the corresponding period of the previous year. The weighted average yield of dated securities issued during the same period increased to 8.40 per cent from 7.79 per cent during the first of half of 2010-11. The hardening in yield has to be seen in the context of change in monetary policy stance of RBI as well as higher levels of inflation in the economy during the last 12 months.

Cash Management

2.31 The year 2011-12 commenced with surplus cash position of ₹ 100 crore and investment surplus of ₹16,416 crore. At the end of second quarter, the Government ended with ways and means advance of ₹24,387 crore and cash balance of ₹100 crore. No balance was available under market stabilization scheme at the end of March 2011. Further, there was no transaction under the scheme during the first half of 2011-12. The net collection under National Small Savings Fund during April-September 2011 has turned negative. It is (-) ₹6,549 crore as against (+) ₹29,997 crore during the first half of last year. The decline in small savings collection has also impacted government cash management.

E. Assessment vis-à-vis mid year FRBM benchmarks

2.32 Under Rule 7 of the FRBM Rules, 2004, Government is required to take appropriate corrective measures in case the outcome of the second quarter review shows that:

I. The total amount of non-debt receipts are less than 40 per cent of budget estimates for that year; or

II. The fiscal deficit is higher than 45 per cent of the budget estimates for that year; or

III. The revenue deficit is higher than 45 per cent of the budget estimates for that year.

The performance in the first half of the fiscal year 2011-12 does not comply with any of the targets in respect of the benchmark of non-debt receipts, fiscal deficit and revenue deficit. The details are shown below in Table 2.9.

Table 2.9
Outcome versus mid-year benchmarks under FRBM rules

Variable	Performance benchmarks under FRBM Rules	April-September			
		2011	2010	2009	2008
Total Non-Debt receipts	Not less than 40 percent	37.7	55.6	40.5	39.9
Fiscal Deficit	Not more than 45 per cent	68.0	34.9	49.3	77.0
Revenue Deficit	Not more than 45 per cent	72.2	27.1	58.4	141.9

2.33 Performance during the first half on the fiscal front poses some risks (encompassing the area of receipts as well as expenditure estimates) which, if not addressed appropriately, may lead to slippage from the path of fiscal consolidation. Though there may not be any risk on the tax receipts front, there are two major challenges related to disinvestment and telecommunication spectrum auction. In the Budget Estimates, ₹40,000 crore and ₹13,000 crore respectively have been estimated for the above two items. The Government is addressing these challenges so as to realize major portions of these estimated receipts.

2.34 Commitments on account of additional requirement on various subsidies would make it difficult to adhere to the total expenditure target for the current year. While giving due consideration to inflation, policy measures to restrict the requirement on subsidy front would be required to adhere to the fiscal deficit target. Notwithstanding the above risks, necessary instructions have also been issued to all Ministries/Departments to adhere to the expenditure ceilings in BE 2011-12. It has been advised that additional expenditure requirements during the year, if any, should be met from savings from the overall expenditure outlays.

F. CONCLUSION

2.35 In conclusion, it may be stated that adhering to the fiscal deficit target of 4.6 per cent of GDP in 2011-12 is a major challenge. The Government, with its commitment to fiscal consolidation, is addressing the challenges on various fronts that impact the fiscal deficit.

CHAPTER III
ANALYSIS AND OUTLOOK

The simmering economic crisis in the Eurozone nations and the continued slowdown of the US and Japanese economies was casting a shadow on all emerging economies at the start of this calendar year. This was reflected in parts of the analysis in Economic Survey 2010-11, which was written over the last months of 2010 and in January 2011. However, that shadow has got palpably longer and darker over the last few months. The sovereign debt problems, which surfaced with the Greek crisis in spring 2010, became more generalized over the last few months and raised questions about the sustainability of public finances in several other European nations. The subsequent downgrading of some of the French banks and rising yields of Spanish and Italian sovereign bonds aggravated the problem and there are genuine fears that the crisis has begun to move from the periphery to the core nations of Europe. The sharply deteriorating global economic environment has had a dampening effect on India. Compounded with some domestic factors, the global situation has led to a clear slowdown in the growth rate of the Indian economy during the first half of 2011-12.

A. Growth

3.2 GDP growth in the first half of 2011-12 is 7.3 per cent. The slowdown in growth is also evident from the monthly Index of Industrial Production (IIP) data and other statistics, such as the Purchasing Managers Index (PMI). This is reason enough to have to revise downwards the GDP growth forecast of 9 per cent that was made in Economic Survey 2010-11.The analysis of several data series and simple macro-econometric modeling lead us to forecast a GDP growth rate of 7.5 +/- 0.25 per cent during 2011-12. We expect some revival next year but the outlook remains mixed. If Europe slides into a proper recession, with all the attendant financial contagion that will no doubt affect other nations, the entire world economy will slow down and we could also be impacted. On the other hand, given that India's fundamentals are strong, if Europe and the United States remain stable, it should be possible for us to get back close to our long-run target of 9 per cent.

3.3 What will happen beyond 2012-13? A natural question that arises is whether our long-run growth forecast is also susceptible to the performance of the industrialized nations. While, no economy in today's globalized world is impervious to what happens in other nations and there is no such thing as a sure forecast, we expect the long-run growth target of 9 per cent per annum GDP growth to be achievable, and, further, we expect this to be fairly robust to fluctuations in the performance of industrialized nations. The reason for this is our opinion that the current global turmoil is only partly a reflection of any nation's policy flaws. It is in larger part an inevitable consequence of a constellation of natural changes, including technological advances, which have brought a number of emerging economies, including the BRICS nations, to the fore. The general advance in technology and the success of some emerging nations, most notably, India, in reforming their economies has meant that labourers, skilled professionals and even corporations from these nations have entered the global marketplace in a way that could not have been imagined even three or four decades ago. So a part of the global turmoil is the turmoil associated with change and the passing of the baton to emerging nations.

B. The world economy and India

3.4 After the global financial crisis in late 2008, following the Lehman Brothers collapse, the world economy plunged into severe recession. By late-2009, it, however, looked as if the global economy would be able to surmount the problems—following unprecedented monetary easing and fiscal stimulus in the developed and developing world. India did very well during this first phase of the global crisis, thanks to its strengths in prudential management of the financial sector, and quick and responsive fiscal stimulus and monetary easing measures: as a result, India's growth slowdown was among the shortest and least severe among all major economies, and growth recovered robustly. By late 2011, however, the world economy was slipping into turmoil. Developed countries, the epicentre of this crisis, are now once again confronted by serious problems: deleveraging by banks, financial institutions and households, escalating fears about sovereign debt, rising cost of sovereign borrowing, especially in Europe, loss of confidence in currencies and stock markets, and persistently high prices of commodities.

3.5 The global economy received a jolt with recent developments in both the US and Euro area. The rating agency Standard & Poor's downgrading of the US long term sovereign rating from AAA to AA+ on August 07, 2011 turned out to be a landmark event. There were many who disagreed with S&P's decision; but the very fact that a rating agency could downgrade the US was treated as significant enough. It sent a sharp signal about the changing landscape of the world economy, even though the underlying fiscal uncertainty and renewed economic slowdown were evident even before that.

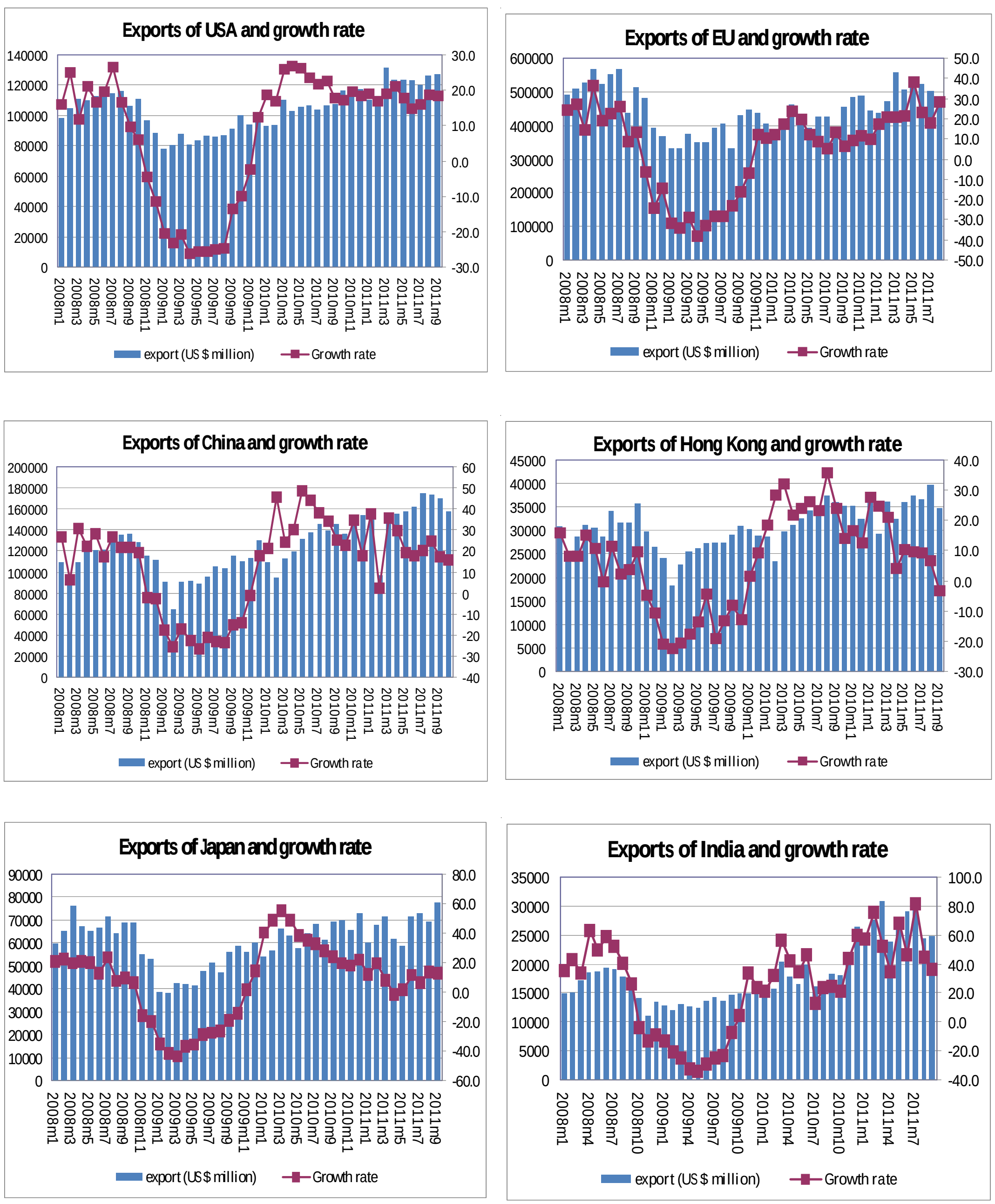
3.6 The slowing performance of the US economy is a matter of concern. However, the sovereign fiscal and debt crisis in the Eurozone is potentially more serious, because of its systemic impacts globally—for banks, bonds, currencies and other asset markets. The large difference between the borrowing costs for the US government (low) and European governments, like Italy, Spain, and even France (high), reflects this. The risk of a US default is considered negligible, since it has a central bank that can be counted on to rescue it, even if that is costly for the nation's long-run growth. On the other hand, Eurozone nations do not have their own money-creating authorities and have to rely on the ECB and so will need the consent of other nations (and the changing of rules) in the event of a crisis. It is this difference that means that every time there is a fear of global crisis, money rushes to the relative safety of the US Treasury.

3.7 The peripheral Eurozone countries were already in a deep and structural fiscal and sovereign debt crisis. The contagion effects are now, however, spreading, and beginning to affect even the 'core' countries. The political fallout could also be seen in Greece and Italy. While the IMF in its World Economic Outlook September 2011 has warned that the global economy is in a dangerous new phase, amply warning about both US and EU, the consequent repercussions are already visible in other countries, including China and India , as well as other emerging markets.

3.8 The important question for us is how much should emerging market countries, especially India, be worried about the impacts in the medium-term? External observers and analysts (such as the IMF, WEO) suggest that while growth in the emerging and developing economies would be lower, it would still be at a solid pace of about 6.4 per cent in 2011 and 6.1 per cent in 2012 compared to 7.3 per cent in 2010 (and slightly lower by 0.2 per cent and 0.3 per cent respectively compared to June 2011 forecasts). China's GDP growth is projected at 9.5 per cent and 9.0 per cent for 2011 and 2012, lower from the 10.3 per cent in 2010 as per IMF. India's GDP growth is projected at 7.8 per cent in 2011 and 7.5 per cent in 2012 compared to 10.1 per cent in 2010.

3.9 One of the paths through which such a slowdown in growth would be expected to happen is trade. World Trade Volume (goods and services) is expected to grow slower at 7.5 per cent in 2011 and 5.8 per cent in 2012 from the 12.8 per cent achieved in 2010 (which was due to high base effect with negative growth of -10.7 per cent in 2009). However, trade in developing countries is still expected to be very strong: while import growth of advanced countries is projected at 5.9 per cent for 2011 and fall to 4.0 per cent in 2012, for emerging and developing economies it is projected at 11.1 per cent and 8.1 per cent, respectively. India's recent trade performance has been extremely robust, surpassing pre-crisis export levels and pre-crisis export growth trends. This is better than export growth of most other competitor countries, in comparative terms, thanks in large part to timely policy interventions and market diversification (Chart 3.1).

Chart 3.1 : Exports and growth rates of select countries



Source: *Compiled from WTO data*

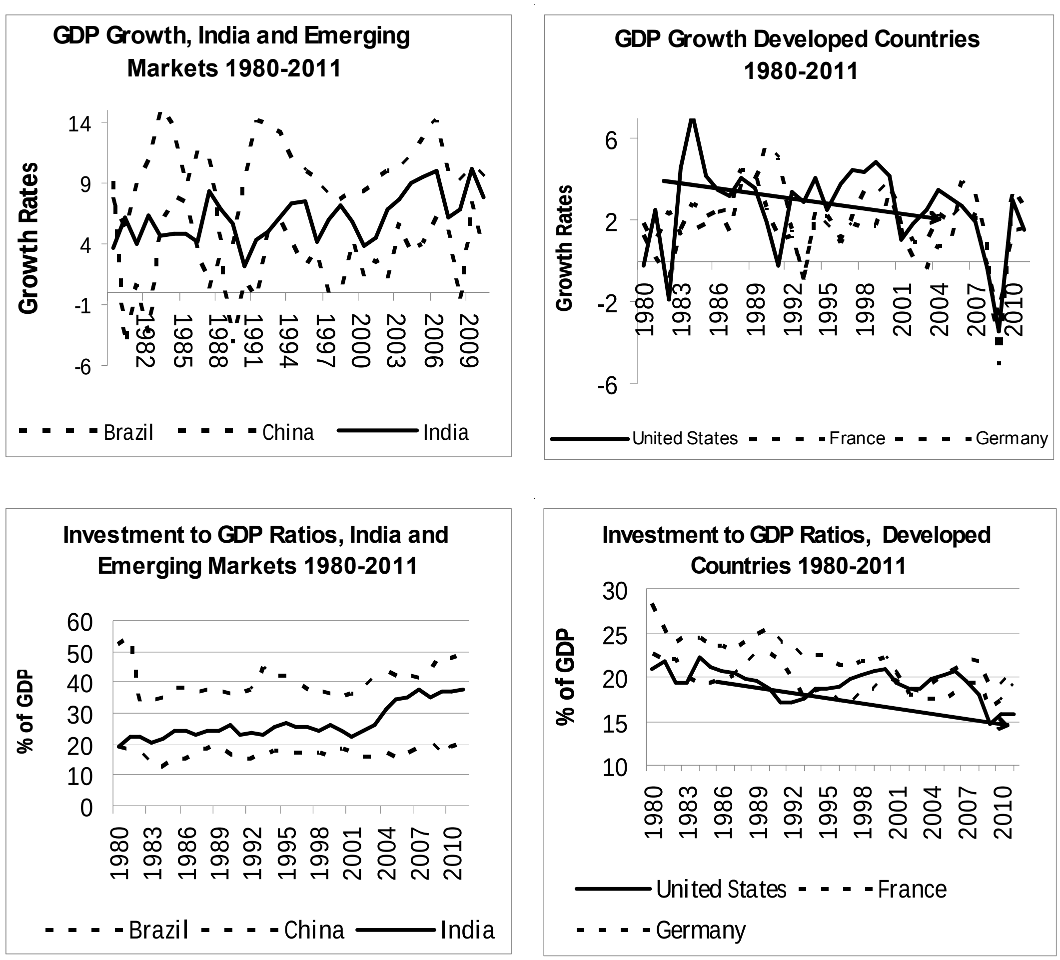
3.10 India's services exports also recovered the lost ground in 2010-11, with growth of 37.8 per cent compared to a negative growth of 9.6 per cent in 2009-10. While software services grew modestly at 18.7 per cent, non-software services grew by 95.2 per cent due to the base effect. Growth of business services at 111.5 per cent and financial services at 74.2 per cent were particularly remarkable. With these developments, the share of non-software services exports reached 31 per cent of total services exports compared to software services share of 44.7 per cent in 2010-11. In the first quarter of 2011-12, services exports grew by 16.2 per cent with software services at 10.6 per cent and non-software services at 14.5 per cent. While immediately there are no indications of a slowdown in services exports, if the situation in the US and EU worsen, then services exports could be affected.

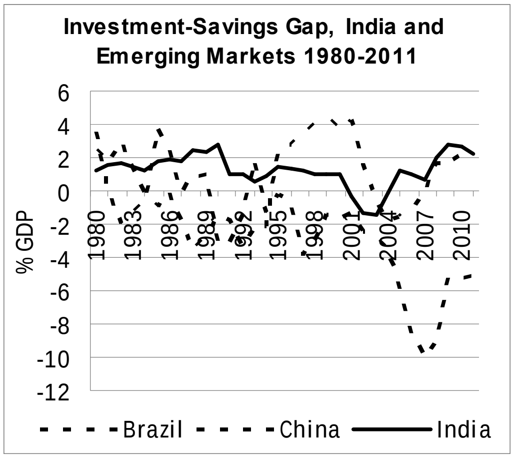
3.11 While the current context in developed countries is thus more precarious, and will affect the emerging markets, there are reasons to suggest that the medium-term growth path in India and other emerging markets should remain strong, even if temporarily set for a modest immediate slowing. The reason is some distinctive structural features of a so-called 'new normal' world economy, with emerging markets growing faster and increasingly driving world growth. Chart 3.2 compares some trends over 1981-2011 between two groups: India and other emerging markets (China and Brazil), versus some representative developed countries (United States, Germany and France). Three features are evident:

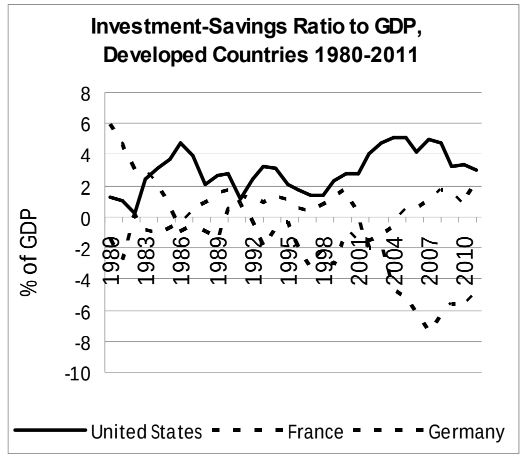
- **GDP growth** in the emerging markets as a group is strong and rising. India exemplifies this, with growth rising from some 5-6 percent per annum, in eighties and nineties and now in the 8-9 percent annual range, with the trend rising. India's growth has also been less volatile. In sharp contrast, developed countries, as a whole, saw a halving of their growth rates, from some 3.5 per cent to some 1.25 per cent per annum. Beyond the immediate global financial crisis, this huge divergence in structural growth trends is a cautionary tale, and illustrative why growth in developed countries, while helpful, is not necessarily a critical issue in developing countries.
- **Investment trends** are really the drivers of this growth process, and we see the same striking features. India's investment rates, for example, driven by the private sector, have risen by some 14 percentage points of GDP since the mid-1990s. Compared to this, investment rates have collapsed in the developed world, down from some 25 per cent to about 17 per cent of GDP. Again, these are illustrative structural trends.
- **Financing of investment** in emerging markets has almost entirely been from their own domestic savings, not foreign savings. For example, the investment-savings deficit (the equivalent of the external current account deficit) in India has never been very large, and very recently, while rising, has stayed below a very modest 2-3 percent of GDP, while China was a big net saver (peak 10 per cent of GDP), sending its savings to the rest of the world. In developed countries, that role has been played by Germany, while others seek to deal with their structural deficits.

3.12 The main point about a 'new normal' world economy is this: while India's and other emerging markets' growth prospects are undoubtedly still connected to the developed world, the setting has changed, dramatically. It is the developing world that is now driving world growth, from largely its own savings and domestic financial resources, and trading and growing with each other. Developed countries need to recover their own growth paths, fixing their financial sectors, private confidence and fiscal problems, and increasingly look to the emerging markets. The troubles in the developed world and their financial sectors and fiscal settings are thus very different, and should not be conflated with the prospects and circumstances in strongly growing and resurgent developing countries, such as India, China and Brazil. The picture of the world economy has thus turned. While China, India and other large emerging markets are not entirely immune to the ongoing crisis in developed countries, their vulnerabilities are much less.

Chart 3.2 : Emerging and developed countries - select macroeconomic indicators







Source : *Computed from World Economic Outlook database, IMF*

C. Fiscal consolidation

3.13 In the wake of a tighter monetary policy stance to address inflationary concerns, some analysts have queried whether the fiscal stance in India is consistent with the monetary policy stance. The concerns arise from the Centre's fiscal policy stance. The record of the Centre prior to the global crisis in fiscal consolidation was broadly in consonance with the mandated targets under the FRBM Act 2003. There was a deviation in 2008-09 and 2009-10 on account of the economic impact of the global crisis that has been documented in the earlier reviews/analysis. As the Economic Survey 2010-11 had indicated, the nature of fiscal deficits in India is largely structural and hence the return to fiscal consolidation has to be on a graduated path.

3.14 The Centre's fiscal policy stance for 2011-12 remained broadly on the consolidation mode. This followed a large correction, which was achieved in financial year 2010-11 when the Centre's fiscal deficit/GDP ratio declined to 4.7 per cent from a level of 6.4 per cent in 2009-10. A part of this has been attributed to higher than budgeted tax revenue on the one hand and a windfall in telecom spectrum auctions. Here again it must be observed that much of the windfall revenues were used to finance additional expenditure for the Revised Estimates for 2010-11.

3.15 Chapter 2 has already discussed the trends in receipts and expenditure for the current financial year and indicated the challenge of meeting the fiscal targets this year. Thus, the concerns expressed in some quarters arise from the Centre's ability to meet its Budget estimates. There can be no denial that meeting the target will not be easy this year. The government is however determined to keep the overshooting of the fiscal deficit target of 4.6 per cent to as minimal as possible.

3.16 It is interesting to review the record of fiscal performance of the Centre in the recent past (Table 3.1). The record is impressive. The only year when the actual target was missed was 2008-09. This was, however, a deliberate move to counter the great global recession which caused an economic slowdown in India.

Table 3.1 : Fiscal Marksmanship (Fiscal deficit/GDP ratio)

Year	BE	RE	Actual	Actual-BE	Actual -RE
2004-05	4.4	4.5	3.9	-0.5	-0.6
2005-06	4.3	4.1	4.0	-0.3	-0.1
2006-07	3.8	3.7	3.3	-0.5	-0.4
2007-08	3.3	3.1	2.5	-0.8	-0.6
2008-09	2.5	6.0	6.0	3.5	0.0
2009-10	6.8	6.7	6.4	-0.4	-0.3
2010-11	5.5	5.1	4.7	-0.8	-0.4
2011-12	4.6	—	—	—	—

Note: (-) indicates over performance and (+) under performance

3.17 The record of the State Governments combined in fiscal consolidation is also impressive. Prior to the global crisis, the states as a whole had exemplary performance with fiscal deficit at 1.5 per cent of GDP and revenue surplus of 0.9 per cent of GDP in 2007-08. Even in the years when fiscal expansion took place, collectively their fiscal deficit was less than 3.0 per cent of the GDP and with a modest revenue deficit.

3.18 It would be instructive to note that the General Government deficits are what matters for the Indian economy in a macroeconomic sense. The consolidated General Government deficit, which combines the deficits of the Centre and the States, came down to 7.7 per cent of GDP in 2010-11 (RE) from a level of 9.3 per cent in 2009-10; it is budgeted to decline to 6.8 per cent of GDP in 2011-12. Thus, the overall fiscal policy stance for the macro economy remains on the consolidation track, even though there may be a small transgression this year.

D. The Current Account Deficit (CAD)

3.19 The current account deficit, as percentage of GDP, marginally improved to 2.6 per cent in 2010-11 as compared to 2.8 per cent in 2009-10. In 2010-11, the current account deficit was within manageable limits as the higher net capital inflows, which stood at 3.5

per cent of GDP, largely financed the current account deficit. In the first quarter (April-June 2011) of the current fiscal 2011-12, the CAD was 3.1 per cent of GDP and the capital account surplus was 4.5 per cent of GDP. Even in the second quarter of 2011-12, export growth was robust at 52.5 per cent, while import growth was at 32.3 per cent. Only in the third quarter of 2011-12, exports are showing signs of deceleration while imports are also indicating moderation.

3.20 On exchange rates too, some worries have been expressed recently. Currency markets worldwide are known to exhibit some tendency to 'overshoot' periodically. However, the view we take is that intervention should be limited and confined to cases where there is volatility and not to alter the trend. Reflecting some of this, during the peak of the 2008-09 global economic crisis, the Rupee exchange rate had depreciated significantly, to about ₹ 52 per US dollar, as the dollar gained strength as a 'safe haven' currency. Since that time, the rupee appreciated to about ₹ 44 per US dollar. Beginning August 2011, the Rupee exchange rate vis-à-vis the US dollar has once again depreciated to above ₹ 52. The suddenness of this shift beginning in September was because of global turbulence and the flight of capital to the relative safety of the US Treasury. However, given that inflation has been high in India compared to the US, it is only to be expected that there will be some depreciation in the rupee vis-à-vis the US dollar. The real exchange rate of the rupee had been appreciating over much of last year and to that extent some of the recent depreciation may be viewed as a lagged correction.

3.21 Nevertheless, analysts in India are worried about the recent depreciation of the Rupee on three counts: (a) pressures on domestic inflation, as imports become more expensive; (b) worries whether this signals a loss of confidence and potential for capital flight; (c) a potential indicator of widening current account deficits and hence pressures on exchange rates. As will be evident from the above analysis, none of these concerns are warranted. First, some volatility, as we have already seen, is substantially due to global currency markets and has very little to do with India. Second, allowing some flexibility in market rates is entirely appropriate and usually self-correcting and, given India's higher inflation, some of the depreciation, merely reflects this. Third, the current account deficit remains quite modest, capital flows are relatively flat, and remittances and NRI deposits are very stable, as is FDI. This dwarfs any concerns about potential for 'hot money' flows. Fourthly, global slowdown could also cool down fuel and commodity prices, thus partially offsetting the depreciation effect on imports.

3.22 There is also some concern about the higher level of CAD being financed by capital inflows. In a normal situation, such modest levels of higher CAD, financed by capital flows is sustainable. However, during any global economic crisis and in case of unexpected reversal of capital flows, BOP may come under stress. To increase resilience of BOP, the objective therefore has to be on lowering CAD through promoting exports and invisible receipts.

E. Inflation

3.23 The average wholesale price inflation (annualized) recorded during April to October, 2011 was 9.6 per cent compared to 9.9 per cent during the same period last year. During the latest month, October 2011, the year-on-year inflation was 9.7 per cent, little change from previous levels (Table 3.2 and Chart 3.3); but some easing of inflation has started and is expected to continue. Inflation in terms of financial-year build-up (that is change in index level in 1st half till September over the March 2011) recorded 4.2 per cent and was about the same as in the last year till September.

3.24 The overall picture during the current fiscal year is thus one of relatively high headline inflation, but one that is slowly moderating. The weekly data confirm that the progress towards lower inflation has gathered pace in the past few weeks with food article inflation having come down to 8 per cent in the week ending 19th November 2011. Nevertheless, the slow pace of moderation of headline inflation has been a cause of concern and consequent action by both the Government and the Reserve Bank of India.

3.25 Policy responses, described in greater detail later, succeeded in holding inflation and moderating inflationary expectations to below double-digit levels during the first half of this fiscal. To a large extent, India's elevated inflation—slightly greater than other emerging market countries (though there are several individual nations that are inflating more rapidly) has been due to an unusual and unprecedented combination of global and domestic structural factors. These include: (1) the large shift that has taken place in favour of relative prices of food, fuel, and other commodities in international commodity markets that affects India relatively more than other countries, both because of the large weight of food items in the consumption basket in India and the much heavier reliance on imports of fuel and other industrial commodities; and (2) the constrained supply response to higher demand and prices, especially in perishable products with fast-growing demand and consumer shifts, such as fruits and vegetables, and protein-rich items such as milk, eggs, fish and meat products, which itself were in part a reflection of large transport and supply-chain costs and margins, which prevented farmers from gaining and responding fully. Medium-term supply-side measures to address structural supply-side bottlenecks have thus become crucial, a subject that is receiving renewed attention, especially in terms of reform of agriculture marketing (Agriculture Produce and Marketing Acts at state level), and new entry and reinvigorated competition in supply-chain improvements (such as through Foreign Direct Investment in multi-brand retail), both of which were recommended by the Inter-Ministerial Group (IMG) on Inflation, headed by the Ministry of Finance.

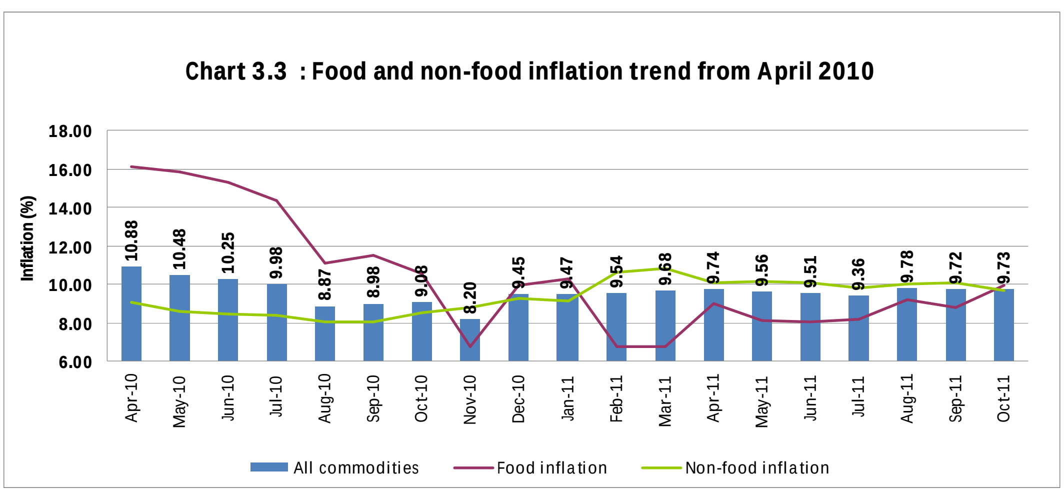
3.26 Inflation impacts virtually all households adversely, but it is natural to be especially concerned about those at the bottom of the income distribution, the poor, and the vulnerable. Fortunately, policies of the Government to support incomes of low-income rural households, such as the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), and relatively high overall economic growth helped lift incomes and wages in both rural and urban areas, which, we believe, helped protect living standards.

3.27 Nevertheless, it is clear that future polices must firmly address the supply side of the entire chain of food production, from the farm to the rural and urban households—where considerable gains are possible that both raise farm incomes and lower consumer prices successfully. Indeed, India is capable of doing so, as was shown in the case of cereals and pulses, but attention now needs to shift to similar 'mission' mode for more diversified food products. States must also bring to bear their policy focus on these questions. At the same time, prospects are that demand-side policies will probably work to bring down overall inflation significantly in the months ahead, both for food and non-food inflation.

Food inflation

3.28 A particular area of continuing concern has been persistently high food inflation. Food comprises a larger share (46 per cent) of the household consumption spending in India, as compared to richer countries (about 7-8 per cent of household spending). As a result, rising food prices have affected all households, and especially the relatively poor. Fortunately, combined food inflation (comprised of food articles and food products) has significantly dropped from a peak of over 20 per cent in February 2010 and about 16 per cent in April 2010 to the range of 6.8-9.9 per cent during February-October 2011.

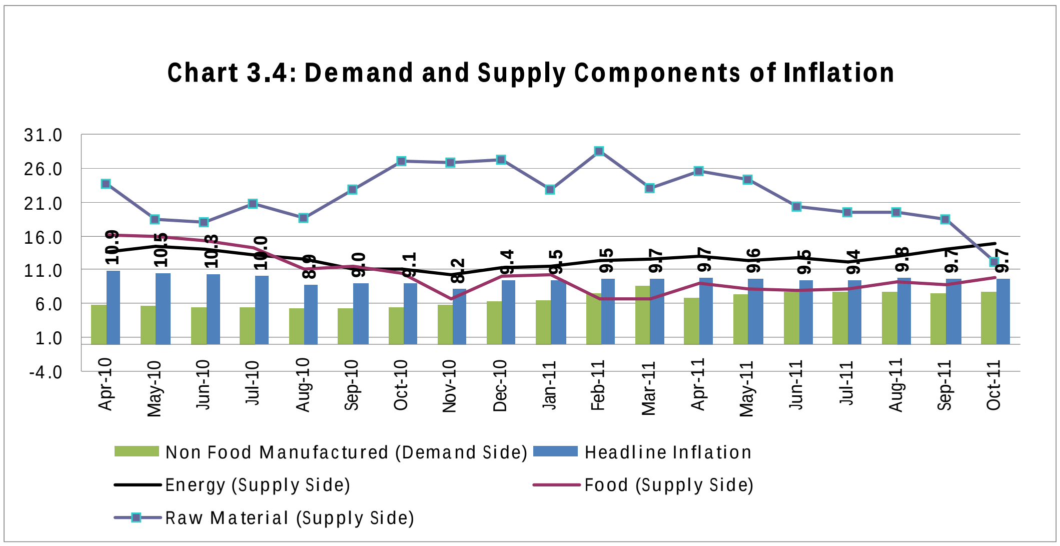
Chart 3.3



Non-Food Inflation

3.29 The pressure on prices shifted to non-food from February 2011 onwards, primarily due to imported global commodity inflation for crude oil and all industrial raw materials and minerals. In October 2011, food inflation was at 9.9 per cent and non-food inflation remained at 9.7 per cent, which is now reported equal to headline inflation level (Chart 3.3).

3.30 Inflation trends for other items are displayed in Chart 3.4. As is evident, raw material inflation has come down. This should have a dampening effect on overall inflation.



3.31 Energy is a major component that exhibit supply constrained rise in prices. Fuel, power, light and lubricants, having a weight of 14.9 per cent in WPI, saw inflation remain at elevated level in the range of 12 to 15 per cent during the current fiscal year. Domestic fuel inflation has been highly pressurized by higher global prices of coal and crude oil and the recent depreciation of the Indian Rupee against the rising dollar. However, inflation in administered mineral oil (Wt.6.3 per cent), which comprises of high speed diesel, LPG and kerosene, stood at 10.9 per cent, which is much lower than the 34.3 per cent inflation of non-administered oils (on November 19, 2011). This indicates that the complete global pass-through was avoided in movement of administered oil prices, as a result of intervention of Government policies and helped keep domestic inflationary pressures lower in the short-run for key commodities with wider effects—although indirectly, the pressures could not be altogether avoided, since the effects of larger subsidies show up in higher fiscal deficits.

3.32 Non-food manufactured products have a weight of around 55 per cent in WPI and is the single component responsible for more than 50 per cent contribution to recent headline WPI inflation. Here, demand side pressures were important. Fast recovery of the economy helped maintain that demand for much of the first half of 2010-11. As a result, non-food manufactured product inflation which was 5.4 per cent in October 2010, rose steadily to 8.5 per cent in March 2011 and thereafter has decelerated to 7.6 per cent in October 2011 (Chart 3.4), mainly in reflection of the demand side measures taken by the Government, as also the Reserve Bank of India with its 13 consecutive policy interest rate increases and monetary policy tightening.

Inflation based on CPI

3.33 Inflation in all major indices largely followed each other. The Consumer Price Index for Industrial Workers (CPI-IW) inflation was running at single digit level from August 2010 to August 2011. In September 2011, it briefly touched double digits at 10.06 per cent after 13 months of single-digit inflation before coming down to single digit again at 9.39 per cent in October, 2011.(Table 3.2).

Table 3.2 : Inflation based on different price indices (%)

	WPI		CPI-IW		CPI-AL		**CPI-RL**	
	2010-11	2011-12	**2010-11**	2011-12	**2010-11**	2011-12	**2010-11**	2011-12
Apr.	10.88	9.74	13.33	9.41	14.96	9.11	14.96	9.11
May	10.48	9.56	13.91	8.72	13.68	9.63	13.68	9.63
Jun. -	10.25	9.51	13.73	8.62	13.02	9.32	13.02	9.14
Jul. -	9.98	9.36	11.25	8.43	11.02	9.03	11.24	9.03
Aug.	8.87	9.78	9.88	8.99	9.65	9.52	9.66	9.71
Sep.	8.98	9.72P	9.82	10.06	9.13	9.43	9.34	9.25
1st Half Average (Apr-Sep)	9.91	9.61P	11.98	9.04	11.91	9.34	11.98	9.31
Oct.	9.08	9.73P	9.70	9.39	8.43	9.36	8.45	9.73
Nov.	8.20		8.33		7.14		6.95	
Dec.	9.45		9.47		7.99		8.01	
Jan.	9.47		9.30		8.67		8.69	
Feb.	9.54		8.82		8.55		8.55	
Mar.	9.68		8.82		9.14		8.96	
2nd Half Average (Oct-Mar)	9.24		9.07		8.32		8.27	
Full year Average Apr-Mar	**9.56**		**10.45**		**10.00**		**10.01**	

P : Provisional

Policy measures taken by government

Demand side Measures

3.34 During 2010 and 2011, the Reserve Bank of India has, steadily and regularly, increased the repo (current 8.5 per cent) and reverse repo (current 7.5 per cent) rates to moderate demand side pressures. The Government has also taken fiscal tightening measures to contain inflationary pressures. As a long term remedy, structural concerns have to be addressed by reducing supply side bottlenecks. Thus, maintaining the growth momentum in the economy with price stability is one of the biggest policy challenges that India is facing in recent times.

Supply Side Measures

3.35 Measures taken to contain prices of essential commodities include; import duties reduced to zero on pulses, edible oils (crude), ban on export of edible oils (except coconut oil and forest based oil) and pulses (except Kabuli chana and organic pulses upto a maximum of 10000 tonnes per year), futures trading suspended in rice, urad and tur by the Forward Market Commission, stock limit orders extended in the case of pulses, paddy and rice up to 30 September 2011, duty under Tariff Rate Quota (TRQ) for Skimmed Milk Powder (SMP) reduced from 15 per cent to 5 per cent for import upto an aggregate of 10000 metric tonnes in a financial year, import of 30000 tonnes of Milk Powder and 15000 tonnes of Milk Fat at zero duty allowed to National Dairy Development Board (NDDB) during 2010-11 under TRQ, reduction in custom duty on crude oil and import duty on petrol and diesel.

3.36 Our expectation is that with demand side pressures moderating, as a consequence of the calibrated withdrawal of the fiscal stimulus and the tightening of credit, along with the base effects of past high prices, overall WPI inflation is likely to decline from December 2011 onwards and the current fiscal may end with headline inflation of around 7 per cent.

3.37 However, this expected improvement will still need to be supported by strong measures to boost economy-wide supply responsiveness in food and agriculture, including addressing supply-chain and marketing bottlenecks, as well as the improvement in competitive supply conditions in manufacturing. This would enable India to recover its growth while moderating inflation to more comfortable levels in the medium-term. The recent decision to allow FDI in multi-brand retail should in the long-run help curb the large margins in India between prices that farmers get and prices that consumers pay.

F. Inclusive growth

Accelerating growth and jobs in manufacturing

3.38 The annual average growth rates of the manufacturing sector output in India during the past five years have moved from the peak of 18.4 per cent in 2007-08 to the trough of 2.5 per cent in 2008-09. After about two years of near stagnation, the manufacturing sector revived in 2010-11 with an annual average growth rate of 9 per cent. Throughout this period, the capital goods sector output remained volatile. During the periods of booming economy monthly growth rates of capital goods output had crossed the 60 per cent mark but had contracted by as much as 20 per cent during the phase of the global and domestic slowdown.

3.39 The current phase of deceleration is worrying from the point of employment generation and sustaining export growth. In India, the manufacturing sector has been employing about 12 per cent of the workforce and bulk of this is in the informal sector. As per the Planning Commission, the country will have to create nearly 220 million jobs between now and 2025 to harness the demographic dividend. The Government has been playing a crucial role in providing a conducive environment for industry to build a strong base. Industrial development in independent India has been guided by the industrial policy resolutions brought out by the Government from time to time. The Government has been keen to give a big push to manufacturing and make manufacturing sustainable, particularly, ensuring environmental sustainability through green technologies, energy efficiency, and optimal utilisation of natural resources and restoration of damaged / degraded eco–systems.

3.40 The Government has now released the New Manufacturing Policy (NMP) to bring about a quantitative and qualitative change with the objectives of (i) Increasing manufacturing sector growth to 12-14 per cent over the medium term to make it the engine of growth of the economy and enable manufacturing to contribute at least 25 per cent of GDP by 2022; (ii) Increasing the rate of job creation in manufacturing to create 100 million jobs by 2022; (iii) Creation of appropriate skill sets among the rural migrant and urban poor to make growth more inclusive; (iv) Increasing domestic value addition and technological depth in manufacturing and ; (v) Enhancing global competitiveness of Indian manufacturing and ensure sustainability.

3.41 The NMP envisages to achieve the above objectives by allowing foreign investments and technologies; encouraging competitiveness; reducing the compliance burden and encouraging innovation and; by instituting effective consultative mechanisms with all stake holders to ensure mid-course corrections. Special attention will be given to provide adequate support to promote and strengthen employment intensive industries to ensure job creation. Further special attention will also be given to capital goods industries, industries with strategic significance, industries with strong engineering base and competitive edge, small and medium enterprises and public sector enterprises. The NMP proposes to ensure a healthy rate of growth for the manufacturing sector by policy interventions in areas like manufacturing management, including accelerated adoption of information technology, skill development, access to capital, marketing, procedural simplification and governance reforms.

3.42 The NMP has been finalised after extensive stakeholder's consultations and inputs from the industry, state governments and experts in the field of manufacturing, technology development and business environment. One of the key policy instruments conceptualised in the NMP is the proposal to establish New Investment and Manufacturing Zones (NIMZs). The NIMZs will be developed in the nature of green field industrial townships, benchmarked with the best manufacturing hubs in the world. These NIMZs will seek to address the infrastructural bottlenecks, create world class urban centres and also absorb surplus labour by providing them gainful employment opportunities.

3.43 The NMP is based on the principle of industrial growth in partnership with the States. The Central Government will create the enabling policy frame work, provide incentives for infrastructure development on Public Private Partnership (PPP) basis through appropriate financing instruments, and State Governments will be encouraged to adopt the instrumentalities provided in the policy. The proposals in the NMP are sector neutral, location neutral and technology neutral, except for the incentives to promote green technology. In order to ensure effective implementation of the NMP, manufacturing policy review mechanisms will be instituted. The NMP also provides for constitution of a high level Manufacturing Industry Promotion Board (MIPB), to ensure coordination amongst Central Ministries and State Governments.

Financial Inclusion (FI) and Literacy

3.44 Financial inclusion along with financial literacy enables individuals to make informed decisions and this in turn results in efficient choices and wealth creation. The development of the financial sector is critically dependent on financial inclusion and this is seen as an important determinant of economic growth. Financial literacy has also been a key factor in increasing financial development augmenting a country's wealth. Financial sector institutions also become more effective with higher level of financial inclusion and literacy largely due to larger and efficient markets. Financially literate consumers are more likely to save in productive financial products and also contribute towards higher savings resulting in a positive effect on both investment levels and economic growth. In addition, financially literate persons are in a better position to mitigate risks on their personal finances and also contribute towards better regulation of markets.

3.45 Financial inclusion remains by far the most important agenda of the Government. Therefore, several steps have been initiated for extending banking outreach to address the needs of the rural population, the poor, the marginalized, the small farmer, the micro entrepreneur and others who are otherwise prone to exclusion from the formal banking system. Financial inclusion is essentially a process of ensuring access to financial services by the economically weaker sections of the population at an affordable cost. The Committee on Financial Inclusion which went into the whole gamut of FI has included in its scope, apart from the regular forms of financial intermediation, a basic no frills banking account, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts and insurance (life and non-life). While financial inclusion, in the narrow sense, may be achieved to some extent by offering any one of these services, the objective of "Comprehensive Financial Inclusion" would be to provide a holistic set of services encompassing all of the above[1].

3.46 Government has launched an ambitious plan 'Swabhiman' under which 73000 habitations of the country having a population of over 2000 are to be provided access to banking facilities by the year 2012. These habitations have been allocated to Commercial Banks, Regional Rural Banks and Cooperatives Banks for providing banking facilities in a time bound manner. By the end of July, 2011, 36,677 villages have been covered. The remaining villages will be covered during the current financial year by March, 2012. Banks have prepared a road map for the next phase of the financial inclusion plan covering villages having a population of more than 1000 and up to 2000. The progress is being closely monitored.

3.47 Business Correspondent (BC) Model is an innovative and integral component of the Financial Inclusion plan. The BC model allows banks to do 'cash in-cash out' transactions at a location closer to the rural population, thus addressing the last mile problem. Activities of BCs include (i) identification of borrowers; (ii) collection and preliminary processing of loan applications; (iii) creating awareness about savings and other products; (iv) promoting Self Help Groups, Joint Liability Groups, Credit Groups etc. The BC Model, thus, ensures a closer relationship between poor people and the organized financial system. Banks have engaged 28356 Business Correspondents (BCs) up to 31st July, 2011 in villages having population of over 2000.

3.48 The Reserve Bank of India has been furthering FI through a combination of strategies like relaxation of regulatory guidelines, provision of new products and other supportive measures. At the instance of RBI, banks have introduced General Credit Card (GCC) facility up to ₹ 25,000 in their rural and semi-urban branches. The objective of the scheme is to provide hassle free credit to customers based on the assessment of cash flow without insistence on security, purpose or end-use of the credit. As of March 2011, banks had 0.95 million GCC accounts with outstanding credit of ₹ 1,308 crore.

3.49 Banks have also been proactively supporting Self Help Groups (SHGs) in meeting their credit needs. As on 31st March, 2011, 75.47 lakh SHGs were having their Saving Bank accounts with a total savings of ₹ 6,925.09 crore with the banks. During the year 2010-11, while the Banks have disbursed an amount of ₹ 14, 773.03 crore as loan to 12.03 lakh SHGs, the cumulative outstanding loan, as on March 31, 2011, was of the order ₹ 30, 627.25 crore.

3.50 In the Union Budget for 2011-12, an announcement was made for setting up of a ₹ 100 crore fund under the name of "India Micro Finance Equity Fund" for providing equity to smaller MFIs to maintain growth and achieve scale and efficiency in their operations. This fund will be utilized for extending equity or any other form of capital debt to Tier-II and Tier-III NBFC MFIs and all Non NBFC MFIs focusing on poverty alleviation in unserved and underserved parts of the country.

[1] Dr Rangarajan Committee on Financial Inclusion, February 2008

3.51 Aam Admi Bima Yojana (AABY) and Janashree Bima Yojana (JBY) are important insurance schemes of the Government of India meant for rural landless poor, rural and urban poor and informal workers working in 45 specified sectors and their families. The contribution per account is only ₹ 100 from the beneficiaries and the balance is paid by the Government of India. The coverage, under these insurance schemes, is being enlarged for all eligible workers and their families by the State Governments through their contribution. The lives covered under Janashree Bima Yojana (JBY) as on 31.03.2011 was 2,09,78,825 and under Aam Aadmi Bima Yojana (AABY) as on 30.09.2011 was 1,84,58,805.

3.52 To encourage people from the un-organised sector to voluntarily save for their retirement and to lower the cost of operations of the New Pension System (NPS) for such subscribers, Government has announced '*Swavalamban' Scheme* in the Budget for 2010-11, under which the Central Government contributes a sum of ₹ 1,000 for each NPS account opened under the Scheme during 2010-11. This contribution is available for persons who join NPS, with a minimum contribution of ₹ 1,000 and a maximum contribution of ₹ 12,000 per annum during the financial year 2010-11. The scheme will be available for a total of 5 years. The Swavalamban Scheme has been widely welcomed by the workers in un-organised sector. The scheme has also been well received by the state governments. Two states, namely *Haryana* and *Karnataka* have already announced co-contributory schemes for specific occupational groups for the workers in the un-organised sector promising to contribute ₹ 1,200 per annum over and above the subscribers' contribution and the contribution of the Central Government. As of now, around 3.60 lakh subscribers have been enrolled under the scheme. Government is hopeful of enrolling around 40 lakh subscribers under the Scheme by 2013-14.

G. Human Capital

Demographic Advantages

3.53 Presently, India is passing through an unprecedented phase of demographic changes. The ongoing demographic changes are likely to contribute to an ever increasing size of labour force in the country. The Census projection report shows that the proportion of population in the working age group (15-59 years) is likely to increase from approximately 58 per cent in 2001 to more than 64 per cent by 2021. In absolute numbers, there will be approximately 63.5 million new entrants to the working age group of 15-59 years between 2011 and 2016. Further, it is important that the bulk of this increase in the population is likely to take place in relatively younger age group of 20-35 years. This trend would make India as one of the youngest nations in the world. In 2020, the average Indian will be only 29 years old, compared to 37 in China and the US, 45 in Western Europe and 48 in Japan. This trend is significant on the grounds that what matters is not the size of the population, but its age structure. A population bulge in the working age groups, however large the total population, is seen as an important advantage characterized as a demographic dividend. In order to reap the benefits of the demographic dividend, we would need to review all our intervention tools that aim at providing social security nets on counts of outputs and outcomes. Greater importance has to be given for health, education, skill development and employment sectors. Programmes like Rashtriya Swasthya Bima Yojana(RSBY), National Rural Health Mission(NRHM), Sarv Shiksha Abhiyan(SSY), Mahatma Gandhi National Rural Employment Guarantee Act(MGNREGA), National Rural Livelihood Mission(NRLM) etc. will have to play a bigger and more focused role.

Education

3.54 Eleventh Plan focused on quantity in school expansion and has recorded significant success in this regard. However, scholastic achievement tests show that learning achievements of the students are well below desired levels. There is need for more focus on measures like ensuring appropriate student teacher ratio, teacher training & evaluation and mechanisms to enforce accountability. In higher education, all out efforts need to be made to increase the gross enrolment ratio from nearly 18 per cent today to 25 per cent by 2016-17.

Health

3.55 The quality of health services needs to be improved through the National Rural Health Mission(NRHM). Shortage of qualified medical personnel at all levels is a major hurdle in improving the outreach of the healthcare system, especially public health services. Efforts to increase the pace of out-turn of doctors, nursing and technical staff needs to be further stepped up. In the interregnum, the possible role of PPP in secondary and tertiary health care may be explored.

Employment

3.56 The Mahatma Gandhi NREGA has been able to provide employment both in scale and intensity which is evident from the fact that its coverage of households has increased during 2010-11 to 5.49 crore households with intensity of 47 persondays per household as compared to 5.26 crore households with intensity of 54 persondays per household during 2009-10. It has been satisfying that percentage share of SCs/STs has always been above 50 percent right through the inception of the programme. The share of women has constantly been around 48 per cent during the last 3 years as against the stipulation of 1/3 as per the Act. But there is need to focus more on qualitative aspects of the programme. Some reforms in this direction could include focusing the programme more on developmental works having the potential to help in domestic growth.

Annex.I

Status of Implementtlation of Major Budget Announcements 2011-12

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
1.	18	To introduce in Parliament a Bill to amend the Fiscal Responsibility and Budget Management (FRBM) Act, 2003.	The draft Bill is being finalized in consultation with C & AG. The Bill is likely to be introduced in Parliament during the Budget Session, 2012.
2.	19	States to amend or enact their FRBM Acts latest by 2014-15. Combined States' debt target of 24.3 per cent of GDP to be reached during this period.	A detailed letter indicating fiscal consolidation roadmap during FC XIII award period 2010-15, has been sent to all state Governments. So far, 15 (out of 28) States have enacted/ amended their FRBM Acts as prescribed by the FC-XIII.
3.	20	To introduce the Public Debt Management Agency of India Bill in the next financial year.	The draft legislation, cleared by Joint Implementation Committee (JIC), has been sent to RBI for comments. The comments of the RBI are yet to be received. The Bill is likely to be introduced in the Parliament during Budget Session, 2012.
4.	22	To finalise the Direct Taxes Code Bill for its enactment during 2011-12 so that the Code becomes effective from April 1, 2012 to allow taxpayers, practitioners and administrators to fully understand the legislation and adjust to the revised procedures	The DTC Bill is with Standing Committee on Finance and is under process.
5.	23	To introduce a Constitution Amendment Bill to facilitate roll-out of GST and to draft a model legislation for the Central and State GST.	**Announcement Implemented** - A Bill to further amend the Constitution to enable introduction of Goods and Services Tax has been introduced in the Lok Sabha on 22.3.2011. Draft model GST legislation for Centre and States would require concurrence on key concepts underlying GST. Discussion paper is under finalization, which will be discussed in the sub-working group. The drafting of GST legislation can be taken up only after a consensus is reached on key concepts.
6.	24	The National Securities Depository Limited (NSDL) to establish and operate the IT backbone for GST. By June 2011, NSDL to set up a Pilot portal in collaboration with eleven States prior to roll out of GST across the country.	**Announcement Implemented** - Empowered Committee of State Finance Ministers has given its in-principle approval for setting up an SPV for GST, to be called GSTN. NSDL has already initiated a pilot project with 11 States.
7.	25	Setting up of a Committee under Dr. C. Rangarajan by the Planning Commission to revisit the extant classification of public expenditure between plan, non-plan, revenue and capital spending.	**Announcement Implemented** - A High Level Expert Committee (HLEC) constituted under the chairmanship of Dr. C. Rangarajan to suggest measures for efficient management of public

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
			expenditure has submitted its final report to Hon'ble PM in August, 2011. Report has since been released by Planning Commission on 1.9.2011.
8.	26	The Nutrient Based Subsidy (NBS) policy to be extended to cover Urea.	The Group of Ministers (GoM) constituted a Committee under the chairmanship of Member, Planning Commission consisting of Secretary (Fertilizers), Secretary (E), Secretary (DAC) and Secretary (Petroleum) as Members. The final report of the Committee on pricing of existing urea units was submitted on 29.4.2011. The report of the CoS on Nutrient Based Subsidy in urea sector was discussed in the meeting of GoM and it was decided to place the same before the CCEA for consideration. Draft note for CCEA is under finalization.
	27	To move towards direct transfer of cash subsidy to people living below poverty line in a phased manner with a view to ensuring greater efficiency, cost effectiveness and better delivery for both kerosene and fertilisers.	(To be read with para No.28)
9.	28	Setting-up of a task force headed by Shri Nandan Nilekani to work out the modalities for the system of direct transfer of subsidy for kerosene, LPG and fertilisers. The interim report of the task force is expected by June 2011 and the system will be in place by March 2012.	The Interim Report of the Task Force headed by Shri Nandan Nilekani on Direct Transfer of Subsidies on Kerosene & LPG has been submitted on 5.7.2011. The recommendations have been accorded in-principle approval by EGoM regarding under recovery of Oil Marketing Companies. Accordingly, Ministry has taken initiative to launch Pilot studies for domestic LPG at Hyderabad and Mysore and for PDS Kerosene at Alwar. Some of the highlights, of the proposed policy are as under: • No. of LPG Cylinders per household at subsidized rates to be restricted. • Direct Transfer of Cash Subsidy to Bank Accounts of Customers using Aadhaar Platforms. • LPG Subsidy to be given to specific categories only. • States/UTs to establish institutional mechanism to undertake cash transfer of Kerosene subsidy before 31.3.2012. • States/UTs to complete preparatory work for direct transfer of Kerosene subsidy w.e.f 1.4.2012.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
			In respect of subsidy on fertilizers, the Taskforce has recommended a phased approach to the transfer of direct subsidy in 3 phases. Phase 1 is likely to be completed by December, 2011; Phase 2 regarding transfer of subsidy directly to retailer is likely to be completed by Kharif 2012 and phase 3 regarding subsidy for fertilizer to farmer will be done only after stabilization of phase 2.
10.	30	To maintain the momentum on disinvestment, ₹40,000 crore to be raised in 2011-12.	**Ongoing process** - The Receipts Budget estimates an amount of ₹ 40,000 crore from disinvestment proceeds. Currently the CCEA has approved disinvestments in SAIL, ONGC, HCL, PFC, BHEL and NBCC. While the FPO of PFC has been completed and the Government has garnered ₹ 1144.56 crore, the other issues are likely to be completed by the end of financial year 2011-12. The Disinvestment of CPSEs is an ongoing process and other cases will be firmed up in consultation with Ministries and CPSEs concerned and thereafter the approval of the CCEA will be sought for implementation of the same. On completion of each transaction the funds are deposited in the Government account and are available for social sector schemes identified by DoE and the Planning Commission.
11.	31	To make the FDI policy more user-friendly, all prior regulations and guidelines have been consolidated into one comprehensive document, which is reviewed every six months. The last review has been released in September 2010. This has been done with the specific intent of enhancing clarity and predictability of our FDI policy to foreign investors. The FDI policy to be further liberalized.	**Announcement Implemented** - The third consolidated FDI Policy Document has been released on 31.3.2011 with following liberalization measures: (i) Pricing of Convertible Instruments; (ii) Inclusion of fresh items for issue of shares against non-cash consideration; (iii) Removal of the condition of prior approval in case of existing joint ventures/technical collaborations in the 'same field'; (iv) Guidelines relating to down-stream investments; (v) Development of Seeds;
12.	32	To liberalise the portfolio investment route, SEBI to	**Announcement Implemented**

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		be permitted to register Mutual Funds to accept subscriptions from foreign investors, who meet the KYC requirements for equity schemes with a view to enabling Indian Mutual Funds to have direct access to foreign investors and widen the class of foreign investors in Indian equity market.	Necessary circulars have already been issued by RBI and SEBI.
13.	33	To enhance the flow of funds to the infrastructure sector, the FII limit for investment in corporate bonds, with residual maturity of over five years issued by companies in infrastructure sector, to be raised by an additional limit of US Dollar 20 billion taking the limit to US Dollar 25 billion thereby raising the total limit available to the FIIs for investment in corporate bonds to US Dollar 40 billion. FIIs to be permitted to invest in unlisted bonds with a minimum lock-in period of three years with permission to trade amongst themselves during the lock-in period.	**Announcement Implemented** Necessary circular and Press Note have already been issued by SEBI and DEA respectively.
14.	34	To move the following legislations in the financial sector:	
		(i) The Insurance Laws (Amendment) Bill, 2008;	**Announcement Implemented** - Government had introduced the Insurance Laws (Amendment) Bill, 2008 in the Rajya Sabha on 22.12.2008, which has been referred to the Standing Committee on Finance for examination and report. Report of the Committee is awaited.
		(ii) The Life Insurance Corporation (Amendment) Bill, 2009;	The Life Insurance Corporation (Amendment) Bill, 2008 was re-introduced as the Life Insurance Corporation (Amendment) Bill, 2009 in the 15th Lok Sabha on 31.07.2009. A Note for the Cabinet with official amendments based on the recommendations of the Standing Committee on Finance has been approved by the Cabinet. The official amendments will be introduced in the forthcoming session of Parliament.
		(iii) The revised Pension Fund Regulatory and Development Authority Bill, first introduced in 2005;	**Announcement Implemented** - To enact the PFRDA Bill, 2011 for creation of a statutory PFRDA, the PFRDA Bill, 2011 has been introduced in Lok Sabha on 24.03.2011.
		(iv) Banking Laws Amendment Bill, 2011;	**Announcement Implemented** - The Bill has been introduced in the Lok Sabha on 22.3.2011.
		(v) Bill on Factoring and Assignment of Receivables;	**Announcement Implemented** - The Bill has been introduced in the Lok Sabha on 24.3.2011.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		(vi) The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2009; and	**Announcement Implemented** - The Bill has been passed by both the Houses of Parliament.
		(vii) Bill to amend RDBFI Act 1993 and SARFAESI Act 2002.	The Cabinet Note was considered by the Cabinet and as per its direction, the matter has been referred to M/o Law for consultations as per directions of Cabinet Committee.
15.	35	To bring suitable legislative amendment in the Banking Regulation Act with a view to enable RBI consider giving some additional banking licences to private sector players.	**Announcement Implemented** - The Banking Laws Amendment Bill, 2011 has been introduced in the Lok Sabha on 22.3.2011.
16.	36	To provide a sum of ₹6,000 crore for infusion in the Public Sector Banks during the year 2011-12 to enable Public Sector Banks to maintain a minimum Tier I Capital to Risk Weighted Asset Ratio (CRAR) at 8 per cent.	**Announcement Implemented** - An amount of ₹ 1000 crore has been transferred to NABARD out of ₹ 6000 crore. The amount available in Budget for capitalization of PSBs is ₹ 5000 crore. An additional demand of ₹ 14,000 crore has been approved by Planning Commission on 13.10.2011.
17.	37	As a part of financial strengthening of Regional Rural Banks, to provide ₹500 crore during 2011-12 to enable them maintain a CRAR of at least 9 per cent as on March 31, 2012.	**Announcement Implemented** - As per Cabinet decision, the release of Central Government share is to be contingent on proportionate release of State Government and sponsor bank share. Out of ₹ 500 crore provided in the Budget 2011-12, a sum of ₹ 110.83 crore has been released during the current year to 10 RRBs.
18.	38	To (i) create "India Microfinance Equity Fund" of ₹100 crore with SIDBI; (ii) create a "Women's SHG's Development Fund" with a corpus of ₹500 crore to empower women and promote their Self Help Groups (SHGs); and (iii) put in place appropriate framework to protect the interests of small borrowers.	For setting up of India Micro Equity Fund (IMEF), EFC meeting was held on 10.10.2011. Accordingly, guidelines for creation of Fund have been approved. Action for allocation of funds has been initiated. Regarding SHGs, NABARD has formulated draft guidelines for operationalising the corpus fund. Comments of Ministry of Rural Development and Ministry of Women & Child Development have been sought on the draft guidelines. Draft Cabinet Note is under preparation. The Government has formulated a draft Micro Finance Institutions (Development and Regulation) Bill, 2011 taking into account the recommendations of the Malegam Committee as well as the views of the RBI on the Report. The Bill had been put on the website of Ministry of Finance seeking comments of stakeholders on the draft Bill. The comments received from the stakeholders are

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
			being compiled and collated.
19.	39	To raise the corpus of Rural Infrastructure Development Fund (RIDF) XVII to ₹18,000 crore from ₹16,000 crore. The additional allocation would be dedicated to creation of warehousing facilities.	**Announcement Implemented** - Administrative order advising RBI to allocate funds for RIDF have been issued on 18.4.2011. Scheme prepared by NABARD has been approved. Operational guidelines have been issued to NABARD on 16.9.2011.
20.	40	To provide ₹5,000 crore to SIDBI for refinancing incremental lending by banks to Micro and Small enterprises out of the shortfall of banks on priority sector lending targets.	**Announcement Implemented**
21.	41	To provide ₹3,000 crore to NABARD, in phases for handloom weaver cooperative societies, which have become financially unviable, as handloom weavers have not been able to repay debts to them.	Planning Commission has conveyed 'in-principle' approval to the proposal. Draft EFC memo has been circulated to concerned Departments inviting comments. The same will be placed before the EFC for expeditious consideration.
22.	42	The Public Sector Banks to achieve the target of 15 per cent of the outstanding loans to minority communities of total priority sector lending.	**Announcement Implemented** - As per progress reported by PSBs, the achievement of total outstanding loans to minority communities as on 30.6.2011 stood at ₹ 1,47,083 crore, which works out to 14.50% of total priority sector advances. Banks, which are lagging, have been advised to work out the quarter-wise targets and closely monitor the progress.
23.	43	The existing scheme of interest subvention of 1 per cent on housing loans to be liberalised by extending it to housing loan upto ₹15 lakh, where the cost of the house does not exceed ₹25 lakh, from the present limit of ₹10 lakh and ₹20 lakh respectively.	A Cabinet Note modifying the Scheme has been sent to Cabinet on 12.10.2011 for consideration.
24.	44	To enhance the existing housing loan limit from ₹20 lakh to ₹25 lakh for dwelling units under priority sector lending.	**Announcement Implemented**
25.	45	To enhance the provision under Rural Housing Fund to ₹3,000 crore from the existing ₹2,000 crore to provide housing finance to targeted groups in rural areas at competitive rates	**Announcement Implemented**
26.	46	To create a Mortgage Risk Guarantee Fund under Rajiv Awas Yojana to guarantee housing loans taken by Economically Weaker Sections (EWS) and LIG households.	The CCEA has approved Rajiv Awas Yojana (RAY) on 2.6.2011. The Scheme will extend financial assistance to States that are willing to assign property rights to slum dwellers for provision of shelter and basic civic and social services for slum redevelopment, and for

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
			creation of affordable housing stock. The Guidelines of the scheme have already been circulated to the State Govt./UTs. Under the scheme, it is also proposed to set up a Mortgage Risk Guarantee Fund to encourage lending for affordable housing to EWS/LIG Households, for loans up to ₹ 5 Lakh with initial corpus of ₹ 1000 crore from the Central Government. The details of establishing and operating the fund are being finalized. Draft guidelines for Credit Risk Guarantee Fund for LIG Housing have been sent to D/o Legal Affairs for vetting.
27.	47	Setting up of Central Electronic Registry under the SARFAESI Act, 2002 to prevent frauds in loan cases involving multiple lending from different banks on the same immovable property.	**Announcement Implemented** - The Central Registry has been operationalised on 31.3.2011.
28.	48	Setting up of Financial Sector Legislative Reforms Commission to rewrite and streamline the financial sector laws, rules and regulations and bring them in harmony with the requirements of a modern financial sector.	**Announcement Implemented** - The Commission has since been set up vide notification dated 24.3.2011.
29.	49	To introduce the Companies Bill, which has been received from the Parliamentary Standing Committee, in the Lok Sabha in the current session.	The Bill could not be introduced in the Budget Session, 2011 (as the same was shortened) and in the Monsoon Session of Parliament. The relevant Cabinet Note was sent to the Cabinet Secretariat, which desired that a Supplementary note be forwarded to them. The same has been forwarded on 29.10.2011. The Bill is now likely to be introduced in the Winter Session, 2011 after approval by the Cabinet.
30.	51	To remove production and distribution bottlenecks for fruits and vegetables, milk, meat, poultry and fish, allocations under the ongoing Rashtriya Krishi Vikas Yojana (RKVY) to be increased from ₹6,755 crore in 2010-11 to ₹7,860 crore in 2011-12.	**Announcement Implemented** - Out of the fund allocation of ₹ 7860 crore for 2011-12, an amount of ₹ 4185 crore has since been released under RKVY. In addition, ₹ 49.13 crore is available for UTs, which is to be released by MHA. As release of funds is an ongoing process, action against this para is completed.
31.	52	Last year's initiative to bring Green Revolution to Eastern Region to be continued in 2011-12 with a further allocation of ₹400 crore.	**Announcement Implemented** - The Guidelines of the scheme were prepared and circulated to concerned States for preparing the action plans. All 7 States had approved the projects. Out of allocated amount of ₹ 400 crore, a sum of ₹ 198.31 crore has since released to these States as 1st installment. As release of funds is an ongoing process, action against this para is completed.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
32.	53	To attain self-sufficiency in production of pulses within next three years, an amount of ₹300 crore to be provided to promote 60,000 pulses villages in rainfed areas for increasing crop productivity and strengthening market linkages.	**Announcement Implemented** - The allocation under this sub-scheme of RKVY is ₹ 300 crore. ₹160.39 crore has already been released to States except Tamil Nadu as 1st installment. As release of funds is an ongoing process, action against this para is completed.
33.	54	To promote production of oil palm, an amount of ₹300 crore to be provided to bring 60,000 hectares under oil palm plantation, by integrating the farmers with the markets.	**Announcement Implemented** - Funds to the tune of ₹ 239.91 crore have been released to 7 States for implementation of the programme. As release of funds is an ongoing process, action against this para is completed.
34.	55	For providing quality vegetables at competitive prices, an amount of ₹300 crore to be provided for implementation of vegetable initiative to set in motion a virtuous cycle of higher production and incomes for the farmers.	**Announcement Implemented** - ₹ 154.19 crore have been released as 1st installment. As release of funds is an ongoing process, action against this para is completed.
35.	56	For promoting higher production of nutri-cereals i.e. Bajra, jowar and ragi etc. and to upgrade their processing technologies and create awareness regarding their health benefits, ₹300 crore to be provided.	**Announcement Implemented** - ₹ 148.82 crore have been released to States except Tamil Nadu. As release of funds is an ongoing process, action against this para is completed.
36.	57	The National Mission for Protein Supplements to be launched with an allocation of ₹300 crore to promote animal based protein production through livestock development, dairy farming, piggery, goat rearing and fisheries in selected blocks.	**Announcement Implemented** - A chart for allocation of funds to different States under each segment of the scheme has been drawn. Out of ₹ 100 crore earmarked for 12 States, ₹ 29.34 crore has been released to 7 States. As release of funds is an ongoing process, action against this para is completed.
37.	58	To make adequate availability of fodder for sustained production of milk through intensive promotion of technologies, a provision of ₹300 crore for Accelerated Fodder Development Programme to be made.	**Announcement Implemented** - A total amount of ₹ 154.43 crore has been released to 12 States. As release of funds is an ongoing process, action against this para is completed.
	60	National Mission for Sustainable Agriculture While the need to maximize crop yields to meet the growing demand for food grains is critical, we have to sustain agricultural productivity in the long run. There has been deterioration in soil health due to removal of crop residues and indiscriminate use of chemical fertilizers, aided by distorted prices.	(To be read with para No. 61)
38.	61	To promote organic farming methods, combining modern technology with traditional farming practices like green manuring, biological pest control and weed management.	**Announcement Implemented** - Organic Farming and Green Manuring have been included as components under the National Mission for Sustainable Agriculture (NMSA).

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
			For controlling insect pests, diseases and weeds, which cause 10-30% crop losses every year, a scheme titled "Strengthening and Modernization of Pest Management Approach in India" has been launched since, 1991-92 by adopting Integrated Pest Management (IPM) as main plank of plant protection strategy. Under the ambit of IPM programme, 31 Central IPM Centres were established in 28 States and 1 UT. The mandate of these Centres is Pest/disease monitoring, production release of bio-control agents/bio-pesticides, conservation of bio-control agents and Human Resource Development in IPM by imparting training to Agriculture/Horticulture Extension Officers and Farmers at grass root level by Farmers Field Schools (FFSs) in farmers' field. Basic aim of FFS is to train the farmers on the latest IPM technology so that they are able to take decision in pest management as well as promote organic farming methods combining modern technology with traditional farming practices like biological pest control and weed management.
39.	62	To raise the target of credit flow to the farmers from ₹3,75,000 crore to ₹4,75,000 crore. Banks to step up direct lending for agriculture and credit to small and marginal farmers.	**Announcement Implemented**
40.	63	Enhancement of additional interest subvention from 2 to 3 per cent to those farmers who repay their crop loans on time.	The draft Cabinet Note has been approved. It has been proposed to modify the scheme (inclusion of Post Harvest Loan). Comments of DoE have been sought, which are awaited.
41.	64	For strengthening NABARD's capital base, ₹3000 crore to be infused, in a phased manner, raising the Government equity to ₹ 500 crore. To contribute ₹10,000 crore to NABARD's Short-term Rural Credit Fund from the shortfall in priority sector lending by Scheduled Commercial Banks.	Regarding enhanced target for flow of agriculture credit, Cabinet has approved the proposal on 28.10.2011. Further action is being taken. Regarding contribution to NABARD, RBI has already allocated due funds to NABARD.
42.	65	To set up 15 more Mega Food Parks to check wastage of fruit and vegetable production due to lack of storage, cold chain and transport infrastructure.	**Announcement Implemented** - CCEA in its meeting held on 25.10.2011 has approved setting up of 15 new Mega Food Parks in addition to 15 ongoing projects. Necessary steps have already been initiated for inviting Expression of Interest (EOI) from the prospective entrepreneurs.
43.	66	To fast track creation of new storage capacity of 150 lakh metric tonnes through private entrepreneurs and warehousing corporations and	Under the Private Entrepreneurs Guarantee (PEG) Scheme a capacity of 151 lakh tonnes in 19 States has been approved to be constructed

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		20 lakh metric tonnes under Public Entrepreneurs Guarantee (PEG) Scheme through modern silos.	through the Private Entrepreneurs. So far, about 69 lakh tonnes capacity has been finalized for creation by Private Entrepreneurs. Central Warehousing Corporation (CWC) and State Warehousing Corporations (SWCs) have been allotted 14.4 lakh tonnes and 5.4 lakh tonnes respectively. Of these about 3.5 lakh tonnes has already been completed by CWC/SWCs. EGoM has in-principle approved additional storage capacity of 2 MMT through construction of silos. Planning Commission has set up a Working Group to develop a model for construction of modern silos. Its report is awaited. Meanwhile, a Note on "Creation of Storage Capacity through construction of silos" has been sent to Cabinet Secretariat for placing it before the EGoM.
44.	67	24 cold storage projects with a capacity of 1.4 lakh metric tonnes have been sanctioned under National Horticulture Mission. In addition, 107 cold storage projects with a capacity of over 5 lakh metric tonnes have been approved by the National Horticulture Board.	**Announcement Implemented** - Different Plan Schemes are being implemented through NHM, NHB and HMNEH for development of cold storage infrastructure in the country. During 2010-11, under NHM scheme, 110 cold storages with capacity of 4.26 lakh MT and under NHB scheme, 209 cold storage with capacity of 11.88 lakh tons have been established. Besides, till 31.10.2011, 81 cold storages with 3.6 lakh MT capacity have been created. 15 Controlled Atmosphere (CA) storage with a capacity of 0.56 lakh MT has been sanctioned under NHM and HMNEH Schemes.
45.	68	To attract investment in cold storage, capital investment in the creation of modern storage capacity to be eligible for viability gap funding scheme of the Finance Ministry and recognize cold chains and post-harvest storage as an infrastructure sub-sector.	**Announcement Implemented**
46.	69	State Governments to review and enforce reformed Agriculture Produce Marketing Act.	**Announcement Implemented** - Model APMC Act and APMC Rules were circulated to various State Governments for adoption during the years 2003 and 2007 respectively. The Model Act provides for alternative marketing choices to farmers in the form of contract farming, direct marketing and private marketing and encourages private investment in market infrastructure and supply chain. In order to incentivise reforms, scheme such as Development/ strengthening of Agricultural Marketing Infrastructure, Grading and Standardization have been promoted where the States, which have adopted the requisite market reforms, can avail

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
			benefits from the scheme. The Committee of Secretaries in its meeting held on 5.4.2011 to review the APMC Act has also suggested expediting the process of reforms for facilitating development of alternative marketing channel for efficient marketing. To expedite the implementation of market reforms, a Committee of State Ministers-in-Charge of Agriculture Marketing of 10 States was set up, which has submitted its report on 8.9.2011. The same has been circulated to States/UTs for their comments and implementation of its recommendation.
47.	71	To enhance capacities of public functionaries in identifying, conceptualising, structuring and managing PPPs, a National Capacity Building Programme has been launched. A comprehensive policy to be used by the Centre and the State Governments in further developing public-private partnerships to be fast tracked.	The Draft Policy has been prepared and is under limited consultation. It is proposed to be put on the DEA's website on PPPs for wider consultation with the stakeholders, which will be followed by 4 regional meetings to obtain feedback.
48.	72	To sanction additional ₹ 5,000 crore for India Infrastructure Finance Company Limited (IIFCL) to provide long term financial assistance to infrastructure projects.	**Direct Lending** : IFCL has achieved cumulative disbursement of ₹ 16,836 crore up to 19.11.2011. During 2011-12, IIFCL plans to disburse additional ₹ 5000 crore out of which ₹ 1512 crore have been disbursed up to 19.11.2011. **Take out Finance** : IIFCL has sanctioned 11 projects for an amount of ₹ 1812 crore since 2010. For the proposed sanction of ₹ 5000 crore during 2011-12, 4 projects worth ₹ 294 crore have been sanctioned. The modifications in this Scheme are being placed before Empowered Committee so as to accelerate the pace of sanctions.
49.	73	To issue tax free bonds of ₹30,000 crore by various Government undertakings to give a boost to infrastructure development in railways, ports, housing and highways development.	The conditions for the issue of tax free bonds have been finalized. DoR is in the process of issuing necessary notification.
50.	74	To create Special Vehicles in the form of notified infrastructure debt funds to attract foreign funds for the infrastructure financing.	Guidelines for Infrastructure Debt Funds (IDFs) have been issued in July, 2011. Both SEBI and RBI have finalized and notified their respective regulations.
51.	75	To come out with a National Manufacturing Policy to bring down the compliance burden on the industry through self-regulation and help make Indian industry globally competitive.	**Announcement Implemented** - The Department of Industrial Policy and Promotion has already come out with a draft National Manufacturing Policy.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
52.	76	Setting up of two committees to address the need for greater transparency and accountability in procurement policy and allocation, pricing and utilisation of natural resources.	**Announcement Implemented** - Two Committees one on Natural Resources and the other on Public Procurement, have already submitted their Reports on 2.6.2011 and 13.6.2011 respectively.
53.	77	Setting up of a Group of Ministers to consider all issues relating to reconciliation of environmental concerns emanating from various departmental activities including those related to infrastructure and mining and suggest changes in the existing statutes, rules, regulations and guidelines and make its recommendations in a time bound manner.	The matter has been taken up with DoE for their advice on the details of the announcement and further action required, particularly, in the context of the fact that a Group of Ministers has already been constituted to examine the issue of environmental clearance to mining projects in Go/ No-Go areas.
54.	78	To provide green and clean transportation for the masses, National Mission for Hybrid and Electric Vehicles to be launched in collaboration with all stakeholders.	**Announcement Implemented** - Cabinet has approved setting up of National Council for Electric Mobility (NCEM) and National Board for Electric Mobility (NBEM) for mission mode approach to expand electric mobility and manufacture of electric vehicles including hybrids and their components in India. Both NCEM and NBEM have been set up.
55.	79	To take up Delhi Metro Phase-III and Mumbai Metro Line III. Financial assistance is to be provided to ongoing Metro projects of Bengaluru, Kolkata and Chennai for speedy implementation.	15,260 modern low floor and semi-floor buses under JNNURM have already been sanctioned. The Empowered Group of Minister's (EGoM) has approved the proposal of Delhi MRTS Phase III for 103.05 km. at a cost of ₹ 35,242 crore. So far ₹ 345.36 crore has been released. Proposal for Line-III from Colaba to Mahim has been received from Govt. of Maharashtra and is being processed for availing JICA loan. At the same time appraisal process of the DPR is being undertaken by MoUD along with Planning Commission and M/o Railways. **Bangalore Metro Rail corporation Ltd.** GoI has so far released ₹ 300 crore under equity, ₹ 500 crore under Pass Through Assistant (PTA) and ₹ 110 crore under Subordinate Debt. **Kolkata East-West Metro Corridor**- A token allocation of ₹ 1 crore each under equity, subordinate debt and Pass Through Assistance (PTA) was made in 2011-12 Budget. Besides, ₹ 50 crore under equity, ₹ 70 crore under Pass Through Assistant (PTA) and ₹ 16.50 crore under Subordinate Debt have so far been released. **Chennai Metro**- GoI has so far released ₹ 300

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
			crore under equity, ₹ 900 crore under Pass Through Assistant (PTA) and ₹ 50 crore under Subordinate Debt.
56.	80	To include capital investment in fertiliser production as an infrastructure sub-sector.	Capital investment in fertilizer sector has been included in the harmonized list of infrastructure proposed in the Note for CoS. The matter is under active consideration.
57.	81	To take follow up action on Task Force on Transactions Cost set up by the Department of Commerce to identify and suggest ways to achieve improvement in efficiency of export processes.	Recommendation regarding filing of a single running bond for all Custom locations has been implemented. The second suggestion relates to sanction of refund of service tax to exporters, which is the same as announced in para 83.
58.	82	Introduction of self-assessment in Customs, to quicken the clearance of the cargo by Customs authorities and to further modernize the Customs administration whereby importers and exporters themselves assess their duty liabilities while filing their declarations in the EDI system.	**Announcement Implemented** - The provision of self-assessment in Customs has been introduced by way of amendments in Sections 17, 18, 46 and 50 of the Customs Act, 1962, vide Finance Act, 2011. Certain provisions have been introduced, to self-assessment for guidance of trade and departmental officers.
59.	83	To introduce a scheme for the refunds relating to tax paid on services used for export of goods on the lines of drawback of duties in a far more simplified and expeditious manner and a new scheme to enable units in SEZs to obtain tax-free receipt of services wholly consumed within the zone for getting their refunds in a much easier manner.	Customs EDI module is to be suitably modified for electronic disbursal of service tax. Modification of Customs EDI module is in progress. Matter is being pursued with PRCCA, CBEC for allotting an account code for issuing refunds from a single head of account. Draft Circular regarding the electronic refund scheme has been placed in the public domain and comments have been invited from trade, industry and field formations. Regarding the SEZs, necessary Notification has already been published in the official Gazette on 1.3.2011.
60.	84	To extend Mega Cluster Scheme for development of leather products by setting up Seven mega leather clusters. Jodhpur to be included for the development of a handicraft mega cluster.	The preparation of DPR is under progress. The Planning Commission has allocated ₹ 1300 crore for the implementation of ILDP during the 11th Five Year Plan. The sub-scheme "Leather Parks" under ILDP has a plan outlay of ₹ 300 crore. The objectives of the proposed Mega Leather Clusters are similar to those of the Leather Parks sub-Scheme i.e. to address the infrastructure constraints being faced by the Leather Industry in the country. At the same time, the proposed Mega Leather Clusters (MLC) Scheme has a

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
			much broader scope and ambit with proposed grant up to 80% of the project cost limited to ₹ 125 crore per cluster. Therefore, there could be no rationale for continuing the Leather Parks sub-scheme in the light of the Budget announcement regarding the creation of 7 mega leather clusters in the country in 2011-12. Therefore, the MLC Scheme is proposed to be sanctioned in lieu of the existing leather parks scheme under the ILDP. The Planning Commission has accorded 'in-principle' approval to the proposal. EFC note is under finalization.
	85	The generation and circulation of black money is an area of serious concern. To deal with this problem effectively, Government has put into operation a five-fold strategy which consists of Joining the global crusade against 'black money'; Creating an appropriate legislative framework; Setting up institutions for dealing with illicit funds; Developing systems for implementation; and Imparting skills to the manpower for effective action.	(To be read with para No. 87)
	86	We secured Membership of the Financial Action Task Force (FATF) in June last year. This is an important initiative of G-20 for anti-money laundering. We have also joined the Task Force on Financial Integrity and Economic Development, Eurasian Group (EAG) and Global Forum on Transparency and Exchange of Information for Tax Purposes.	(To be read with para No. 87)
61.	87	A dedicated Cell for exchange of information is to be set up in Foreign Tax Division of CBDT, to handle the increase in tax information exchange and transfer pricing issues effectively.	**Announcement Implemented** - A software application to be used by the dedicated cell to effectively handle the increase in tax information exchange and transfer pricing issues has been developed. The space for setting up the dedicated cell has been made available.
62.	89	Commissioning of a study on unaccounted income and wealth held within and outside the country, which would suggest methods to tax and repatriate illicit money.	**Announcement Implemented** - MoU has been signed on 21.3.2011 between CBDT and three institutions namely National Institute of Public Finance and Policy, National Institute of Financial Management & National Council of Applied Economic Research for carrying out a study on unaccounted income and wealth held within and outside the country. The Study will be completed within a period of 18 months.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
63.	90	To announce a comprehensive national policy to strengthen controls over prevention of trafficking and improve the management of narcotic drugs and psychotropic substances.	A revised Draft Note for the Cabinet for obtaining approval to the National Policy on Narcotic Drugs and Psychotropic Substances has been circulated for inter-ministerial comments. Comments from concerned Ministries/Departments have been received. Final note is being prepared for the approval of Cabinet. NDPS policy is likely to be declared by December, 2011.
64.	91	To finalise National Food Security Bill (NFSB), which is to be introduced in the Parliament during the current year and increase in allocation for social sector by 17 per cent making it ₹ 1,60,887 crore.	The National Advisory Council (NAC) has prepared a draft National Food Security Bill. The same was considered by EGoM on 11.7.2011, which directed that the bill with modifications be got vetted from legislative Department before States/UTs are consulted and thereafter placed before the Cabinet for consideration. The Bill has been got vetted and States/UTs/ Central Ministries are being consulted. The same has also been placed on the website of D/o F&PD seeking comments/suggestions. After appropriate consultations, draft will be placed before the Cabinet for approval before its introduction in the Parliament.
65.	92	Allocation of ₹58,000 crore for Bharat Nirman, which includes Pradhan Mantri Gram Sadak Yojna (PMGSY), Accelerated Irrigation Benefit Programme, Rajiv Gandhi Grameen Vidyutikaran Yojna, Indira Awas Yojna, National Rural Drinking Water Programme and Rural telephony. To provide Rural Broadband Connectivity to all 2,50,000 Panchayats in the country in three years.	Rural Telephony: • Out of 62302 villages, VPTs have been provided in 62030 villages. VPTs in Remaining 270 villages will be provided on DSPT for which procurement of DSPTs by BSNL is under progress. • Rural teledensity as of September 2011 is 36.44%. • As of September 2011, broadband coverage has been provided to 1,38,434 Panchayats.
66.	93	Enhancement of wage rates to provide a real wage of ₹ 100 per day for indexing the wage rates notified under MGNREGA to the Consumer Price Index for Agricultural Labour.	**Announcement Implemented** - The Government of India has taken a decision to index wage rate notified under MGNREGA to the Consumer Price Index for Agriculture Labour and accordingly issued necessary notification revising wage under the Mahatma Gandhi National Guarantee Employment Act, 2005.
67.	94	To increase in the remuneration of Anganwadi workers from ₹1,500 per month to ₹3,000 per month and for Anganwadi helpers from ₹750 per month to ₹1,500 per month.	**Announcement Implemented**
68.	96	To allocate ₹ 52,057 crore, which is an increase of 24 per cent over last year, for universalising access to secondary education, increasing the	**Announcement Implemented**

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		percentage of scholars in higher education and providing skill training.	
69.	97	To allocate ₹21,000 crore, which is 40 per cent higher than ₹ 15,000 crore allocated last year for implementing right of children to free and compulsory education. To implement revised Centrally Sponsored Scheme "Vocationalisation of Secondary Education" to improve the employability of India's youth.	**Announcement Implemented** - **Sarva Shiksha Abhiyan** -Till 2.11.2011 ad-hoc installment of ₹ 15,266 crore has been released to States/UTs implementing Societies, who have also been requested to send proposals for 2nd installment. Vocationalisation of Secondary Education -The revised scheme of "Vocationalisation of Secondary Education" has been approved and guidelines of the revised scheme have been communicated to the States and UTs.
70.	98	Introduction of a scholarship scheme for needy students belonging to the Scheduled Castes and Scheduled Tribes studying in classes ninth and tenth, which will benefit about 40 lakh students.	A concept paper on the Scheme of Pre-Matric scholarship for SC/ST students has been prepared and approved by Planning Commission 'in-principle'. Necessary action to launch the scheme in respect of SC and ST students is being taken by M/o SJ & E and M/o Tribal Affairs respectively.
71.	99	To link 1500 Institutes of Higher Learning and Research through an optical fibre backbone by the National Knowledge Network (NKN) by March 2011.	A core Backbone consisting of 18 Points of Presence (PoPs) have been established with 2.5 Gbps capacity. A total 493 links have been allocated so far, out of which 405 links to Institutions have been commissioned and made operational. A total of 79 core links have been allocated, out of which 71 have been commissioned and are operational.
72.	100	A National Innovation Council under Shri Sam Pitroda has been set up to prepare a roadmap for innovations in India. The process of setting up State Innovation Councils in each State and Sectoral Innovation Councils aligned to Central Ministries is underway.	**Announcement Implemented** - 18 states have constituted the State Innovation Councils. Several other States have given their commitment to constitute the same at the earliest. 16 Ministries and Departments/ 19 Sectors have also constituted the Sectoral Innovation Councils.
73.	101	To provide special grants to recognize excellence in universities and academic institutions as under:	
		• ₹50 crore each to upcoming centres of Aligarh Muslim University at Murshidabad in West Bengal and Malappuram in Kerala;	Necessary action to implement this announcement is under active consideration of Department of Higher Education.
		• ₹100 crore as one-time grant to the Kerala	Necessary action to implement this

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		Veterinary and Animal Sciences University at Pookode, Kerala;	announcement is under active consideration of ICAR.
		• ₹10 crore each for setting up Kolkata and Allahabad Centres of Mahatma Gandhi Antarrashtriya Hindi Vishwavidyalaya, Wardha;	₹ 5 crore to each have already been released. proposal for release of additional funds will be considered in due course.
		• ₹200 crore as one time grant to IIT, Kharagpur;	Necessary action to implement this announcement is under active consideration of Department of Higher Education.
		• ₹20 crore for Rajiv Gandhi National Institute of Youth Development, Sriperumbudur, Tamil Nadu	Necessary action to implement this announcement is under active consideration of Department of Youth Affairs.
		• ₹20 crore for IIM, Kolkata, to set up its Financial Research and Trading Laboratory;	**Announcement Implemented**
		• ₹200 crore for Maulana Azad Education Foundation;	**Announcement partially implemented** - Out of ₹ 200 crore, ₹ 150 crore has been released to MAEF. For the balance amount of ₹ 50 crore, necessary action is being taken expeditiously by Ministry of Minority Affairs.
		• ₹10 crore for Centre for Development Economics and Ratan Tata Library, Delhi School of Economics, Delhi; and	A provision of ₹10 crore has been made in the 2nd Supplementary Demand for Grants. Necessary administrative formalities are underway to release the special Grant-in-aid.
		• ₹10 crore for Madras School of Economics.	**Announcement Implemented**
74.	102	To provide an additional ₹500 crore to the National Skill Development Fund to enable National Skill Development Council (NSDC) to sanction more projects.	So far 39 proposals, including 6 for setting up Sector Skill Councils, involving a commitment of ₹ 1020 crore have been approved by NSDC. Out of these, 21 proposals with a commitment of ₹ 550 crore have so far been funded and ₹ 115.46 crore have been disbursed. NSDC is yet to submit a request for additional funds.
75.	103	To institute an international award with prize money of ₹1 crore for promoting values of Universal Brotherhood in the memory of Gurudev Rabindranath Tagore as part of National celebrations of his 150th Birth Anniversary.	**Announcement Implemented**
76.	104	The Rashtriya Swasthya Bima Yojana to be extended to MGNREGA beneficiaries, beedi workers and others including unorganized sector workers in hazardous mining and	Rashtriya Swasthya Bima Yojana (RSBY) has since been extended to MGNREGA beneficiaries, who have worked for 15 days during the preceding year. It has also been extended to Beedi workers

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		associated industries like slate and slate pencil, dolomite, mica and asbestos etc.	and domestic workers. The issue regarding extension of the Scheme to other categories (Rickshaw pullers, Auto-rickshaw drivers and Taxi drivers, sanitation workers and rag pickers) is under active consideration in consultation with the concerned Ministries/Departments.
77.	105	To provide banking facilities to habitations having a population of over 2000. Out of about 73,000 such habitations identified by Banks for providing banking facilities using appropriate technologies, 20,000 villages to be covered during this year and the remaining during next year.	**Ongoing progress** - As per reports received from Banks, 42,056 villages have been covered under the campaign as on 31.10.2011. DoT has reported that almost all the 73,000 villages have been provided mobile connectivity.
78.	106	To relax the exit norms whereby a subscriber under Swavalamban is allowed exit at the age of 50 years instead of 60 years, or a minimum tenure of 20 years, whichever is later. To extend the benefit of Government contribution from three to five years for all subscribers of Swavalamban who enroll during 2010-11 and 2011-12.	The enrolment of subscribers is in full swing. So far, 3,65,425 subscribers have been registered under the Swavalamban Scheme. Efforts are being made to cover the backlog of Financial Year 2010-11 and to extend the benefits of Swavalamban to the targeted 20 lakh beneficiaries by March, 2012. The suitable amendments to the operational guidelines for the Swavalamban Scheme of the Government to give the benefits of early exit and to increase the period (of co-contribution from the Government) from 3 years to 5 years are being formulated in consultation with the Interim Pension Fund Regulatory and Development Authority. A Cabinet Note is also being drafted to seek sanction of the Government to grant Government co-contribution to the subscribers of the Swavalamban Scheme for 5 years instead of 3 years.
79.	107	To reduce the eligibility for pension under the on-going Indira Gandhi National Old Age Pension Scheme for BPL beneficiaries to 60 years from 65 years at present. To raise the pension amount to ₹500 to ₹200 for those beneficiaries who are 80 years and above.	**Announcement Implemented** - Necessary notification has been issued by Department of Rural Development on 30.06.2011.
80.	108	To allocate ₹200 crore for ambitious ten-year Green India Mission from the National Clean Energy Fund.	A proposal for appraisal by Inter-ministerial Group (IMG) for providing ₹ 200 crore from National Clean Energy Fund was submitted to the IMG on 20.7.2011. Following a suggestion that CAMPA funds may be accessed as an alternative to approaching the Finance Ministry for GIM

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
			requirement of ₹ 200 crore in 2011-12, an IA is being filed in the Supreme Court for additional allocation from CAMPA funds.
81.	109	To allocate ₹200 crore from the National Clean Energy Fund as Centre's contribution for launching environmental remediation programmes.	A meeting on the project "Remediation of Hazardous Waste Contaminated Dump Sites" has been held. MoEF has constituted the Project Monitoring Committee (PMC) to ensure effective over-all implementation. A Project Steering Committee (PSC) has been constituted. After the meeting of the PSC, CPCB will issue EoI for selecting agencies for preparation of DPRs.
82.	110	To provide a special allocation of ₹200 crore for the clean-up of some important lakes and rivers of cultural and historical significance other than the Ganga.	DPRs for conservation of rivers Sabarmati, Musi and Yamuna are under finalization. Projects for conversation of lakes of national importance have been identified under the ongoing NICP programme.
83.	112	To provide ₹100 crore for Ladakh and ₹150 crore for Jammu for projects identified and recommended by the Task Force set up for the purpose.	**Announcement Implemented**
84.	114	To provide additional ₹ 30 crore per district to Left Wing Extremism affected districts, as part of Integrated Action Plan (IAP) for 60 selected tribal and backward districts. The allocated funds are to be placed at the disposal of the district level committees who in consultation with local MPs will have the flexibility to spend the amount on development schemes as per the local needs.	**Announcement Implemented** - ₹ 25 crore per district (for 2010-11) were released to the 60 districts covered under the Integrated Action Plan (IAP) in December, 2010. Further, an amount of ₹ 1000 crore has been released to these Districts for 2011-12. Regarding consultation with Local Members of Parliament, the concerned State Governments/ District Collectors have been issued suitable instructions. The implementation of the IAP is being monitored/ reviewed through regular video conferences with the States/ Districts so that immediate remedial measures are taken at the ground level. The financial and physical progress is being directly uploaded by the Districts on MIS http:// www.peserver.nic.in/iapmis.
85.	115	In recognition of the sacrifices made by Central Para-military Forces engaged in tackling Left Wing Extremism, a lump sum ex-gratia compensation of ₹9 lakh for 100 per cent disability will now be granted to personnel of the Defence and para-military forces who are discharged from service on medical grounds on account of disability attributable to or aggravated in government service. For personnel with	In respect of defence personnel, approval of MoD and DoE has been obtained. However, orders will be issued on receipt of certain clarifications, which have been sought from DoE. In respect of personnel of Para military Forces, necessary orders have been issued on 21.4.2011.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		disability ranging from 20 to 99 per cent, a proportionate amount would be given.	
86.	117	In order to speed up delivery of justice, the Plan provision for Department of Justice for 2011-12 has been increased three-fold to ₹1,000 crore. The enhanced provision will help in building judicial infrastructure and the project on E-courts.	**Announcement Implemented**
87.	119	In response to the overwhelming demand for enumeration of castes other than Scheduled Castes and Scheduled Tribes in Census 2011, it has been decided to canvass 'caste' as a separate time bound exercise. This exercise will start in June 2011 and to be completed by 30th September 2011.	Socio-Economic and Caste Census (SECC) is already over in UTs of Dadra & Nagar Haveli and Puduchhery. It is in progress in Daman & Diu, Tripura, Chandigarh, Chattisgarh, Punjab, HP and AP. Out of total of nearly 3,17,000 Enumeration Blocks (EBs) in the above nine States/UTs, the field survey has been completed in 17,500 EBs.
88.	120	So far 20 lakh Aadhaar numbers have been given and from 1st October 2011, ten lakh numbers to be generated per day. The stage is now set for realising the potential of Aadhaar for improving service delivery, accountability and transparency in governance of various schemes.	Approximately 597 lakh Aadhaar numbers have been generated so far. During October, 2011 on an average 7 lakh Aadhaar numbers per day were generated. Efforts are being made to stabilize the numbers at 10 lakh per day.
89.	121	The backbone of an efficient tax administration is a robust IT infrastructure and its deployment for enhanced taxpayer services. Towards this objective, both the Central Boards of Direct Taxes (CBDT) and Excise and Customs (CBEC) have put in place the following measures:	
	•	The on-line preparation and e-filing of income tax returns, e-payment of taxes through 32 agency banks, ECS facility for electronic clearing of refunds directly in taxpayers' bank accounts and electronic filing of TDS returns are now available throughout the country. These measures have empowered taxpayers to meet their tax obligations without visiting an income tax office.	
	•	The Centralized Processing Centre (CPC) at Bengaluru has increased its daily processing capacity from 20,000 to 1.5 lakh returns in 2010-11. This project has won a Gold Award for e-Governance in 2011. Two more CPCs will become operational in Manesar and Pune by May 2011 and a fourth CPC will come up in Kolkata in 2011-12.	No bid was received for the CPCs Manesar & Pune. Modified RFP is under preparation. Thereafter, re-tendering shall be done. In view of the failure of the RPC Pune & Manesar tendering, the tendering for RPC Kolkata cannot take place now. It can be initiated only after completion of the Pune & Manesar re-tendering. Bids for CPC Manesar & Pune have been re-invited. The RPCs at Pune and Manesar could then be set up in next six months.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		• With the completion of its IT Consolidation Project, CBEC can now centrally host its key applications in Customs, Central Excise and Service Tax. The Customs EDI system now covers 92 locations across the country. CBEC's e-Commerce portal ICEGATE, has also been conferred a Gold Award for e-Governance.	**Announcement Implemented** - The IT consolidation project has been implemented. The Central Excise and Service Tax application (ACES) is ported in the National Data Centre and implemented in all 104 Central Excise and Service Tax Commissionerates. The upgraded Customs application (ICES 105) is also ported in the National Data Centre and has been implemented in 94 locations.
		• The 'Sevottam' concept has been adopted by both Boards. The three pilot projects of Aaykar Seva Kendras (ASKs) under CBDT have come of age. CBDT will commission eight more such centres this year. In 2011-12, another fifty ASKs will be set up across the country. CBEC has also launched a similar initiative and four of their pilot projects have been commissioned.	**CBDT -** 60 locations have been identified and financial sanction for creating infrastructure at these locations has been obtained and communicated to respective CCsIT. The work of setting up of ASKs is decentralized and the local Chief Commissioners are in the process of setting up of ASKs. They have also been provided the standardized design on the basis of prototype developed at earlier locations. It is expected that the 50 ASKs will be made operational during the year.
		• The electronic filing of Tax Deduction at Source (TDS) statements has stabilized. The Board shall soon notify a category of salaried taxpayers who will not be required to file a return of income as their tax liability has been discharged by their employer through deduction at source.	**Announcement Implemented** - Notification for exempting a category of salaried tax payers from filing of return of income tax return has been issued on 23.6.2011.
		• CBDT will provide a separate web-based facility to enable a direct, stand-alone interface for taxpayers with the Income Tax Department so that they can report and track the resolution of their refunds and credit for prepaid taxes.	A Committee was appointed to study the proposed portal on RT-TRF which has submitted its report on 27.5.2011. It has been observed therein that a number of steps will be required for creation and implementation of RT-TRF System. The feasibility of hosting the facility on existing e-filing server and Income Tax website were explored and both these options were not found feasible for the time being. Therefore, the matter was discussed with NIC for developing and hosting of RT-TRF on NIC data Centre through a fresh contract. The NIC has not submitted the Techno Commercial Proposal in spite of reminders. Therefore, the Department is considering hosting option on TIN-NSDL website, which would take about 6 months to make the facility functional.
90.	122	Mission Mode Projects for computerization of Commercial Taxes in States that I announced in my last Budget, will allow States to align with the roll out of GST. Funds have been released for 31 projects received from the States and	**Announcement Implemented** - a) Most of the States/UTs have completed the legal changes required to enable the e-services.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		Union Territories. Most of the States and UTs have already enabled the facility of dealers making electronic payments. A number of States have already started accepting Electronic Tax Returns and issuing forms required for inter-state trade.	b) 22 States/UTs have successfully started e-payment facility to their dealers. c) 21 States/UTs have successfully started e-Return filing facilities for their dealers. d) 13 States/UTs have collected more than 80% of PAN details from their dealers and remaining others are collecting it on priority. Most of the States/UTs have made PAN compulsory for filling return. e) 12 States/UTs have successfully started e-Registration. In 5 States/UTs e-refund is operational.
91.	123	With the development of the economy, the need to review the provisions of the Indian Stamp Act, 1899 has been felt over the years. I propose to introduce a Bill shortly to amend the Indian Stamp Act.	Draft set of the amendments proposed has been finalized. Draft Note for Cabinet had been sent for Inter-Ministerial consultations. Based on the feedback obtained, a revised set of amendments has been prepared and revised draft note for Cabinet has been circulated to Ministries/ Departments for obtaining their views on it, which have been received. Revised Cabinet Note and the Draft Bill is under finalization based on the inputs received.
92.	124	Five years ago, we took an initiative to introduce a modern and people-friendly e-stamping facility in the country. Only six States have introduced this system so far. I propose to launch a new scheme with an outlay of ₹300 crore to provide assistance to States to modernise their stamp and registration administration and roll out e-stamping in all the districts in the next three years.	A note for the consideration of CNE was sent to Department of Expenditure for appraisal by the CNE through IFU. DoE has raised some queries, replies to which are being prepared by obtaining relevant information from the States. The same is still awaited from 12 States.
93.	125	I propose to introduce a new simplified return form 'Sugam' to reduce the compliance burden of small taxpayers who fall within the scope of presumptive taxation.	**Announcement Implemented** - A new simplified return form SUGAM has been notified on 5.4.2011 and the same is available for use by the small taxpayers who fall within the scope of the presumptive taxation.
94.	126	The increase in scope of cases admitted by the Settlement Commissions has provided relief to several taxpayers. This has also increased the workload of the Commission. To fast track the disposal of cases, three more Benches of the Commission are being set up.	The draft Note for the Cabinet for the creation of three Additional Benches of Income Tax Settlement Commission has been finalized after Inter-Ministerial Consultations. The matter is under consideration of the Cabinet.
95.	128	A Group of Ministers has been constituted to consider measures for tackling corruption. The Group has been tasked with addressing issues relating to State funding of elections, speedier processing of corruption cases of public servants, transparency in public procurement and contracts,	The GoM has submitted its 1st Report in April 2011, which has been accepted by the Government. For implementing some of these recommendations, orders have been issued. For implementing other recommendations, which require amendments in statutory rules,

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		discretionary powers of Central ministers and competitive system for exploiting natural resources. The Group will make its recommendations in a time bound manner.	necessary action is under way. However, the GoM has not yet submitted its final recommendations.
96.	129	Pursuant to the recommendations of Second Administrative Reforms Commission, the Government has set up a Performance Monitoring and Evaluation System (PMES) to assess the effectiveness of Government departments in their mandated functions. It involves preparation of a Results Framework Document (RFD) by each department, highlighting its objectives and priorities for the financial year and achievements against pre-specified targets at the end of the year. This document would be available for public information on the departmental websites. In the first phase, 62 departments have been covered under PMES.	**Announcement Implemented** - While 62 Departments were covered under PMES in 2010-11, 74 departments are now covered under PMES for the year 2011-12. In addition, the Responsibility Centers (RCs) (attached, subordinate offices and autonomous bodies) of 6 Departments are also preparing their RFDs for 2012-13. The RFD system, therefore, now extends to 80 departments of Central Government and some 800 RCs. Many State Governments have expressed keen interest in PMES and some of them including Punjab, Maharashtra, Kerala, Himachal Pradesh and Karnataka have started implementing RFD systems at State level. Punjab has started preparing RFDs at district level also. Kerala has implemented RFD system within 100 days of announcement for the same and RFDs of 36 Departments of Government of Kerala have now been approved by State Government Cabinet. PMD is playing active role in assisting the States in implementing their RFDs. Since, implementation of PMES is an ongoing and continuing process, action against this para has been treated as completed.
97.	130	In pursuance of the announcement made in the Budget 2010-11, I had set up a Technology Advisory Group for Unique Projects (TAGUP). The Group has submitted its report and its recommendations have been accepted in principle. The modalities of implementation are being worked out.	To discuss and implement the recommendations of Technology Advisory Group for Unique Projects (TAGUP), a High Level Coordination Committee (HLCC) has been constituted under the Chairmanship of Finance Secretary to carry forward the recommendation made by TAGUP. The matter is under active consideration of HLCC.
98.	131	Indian Rupee now has a new symbol which has been notified for use by the Central and State Governments, business entities and the general public. A new series of coins carrying this symbol will be issued shortly. The Government has approached Unicode Standards Authority for inclusion of the symbol in international standards.	**Announcement Implemented** - New Rupee symbol has been included in Unicode Standard and National Standard ISCII and have also been placed on the keyboard.
99.	144	To attract foreign funds for financing of infrastructure, I propose to: • create special vehicles in the form of notified infrastructure debt funds;	 • Guidelines for Infrastructure Debt Funds (IDFs) have been issued in July, 2011. Both SEBI and RBI have finalized and notified their respective regulations.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
		• subject interest payment on the borrowings of these funds to a reduced withholding tax rate of 5 per cent instead of the current rate of 20 per cent; • exempt the income of the fund from tax.	• Finance Act, 2011 has inserted a new sub-section 10(47) in the Income-tax Act, 1961 which provides that income of infrastructure debt fund set up in accordance with the prescribed guidelines shall be exempt from taxation. Further, withholding rate of 5% and exemption for the income of the fund has also been incorporated in the Act. The effective date of the newly inserted section is from 1.6.2011.
100.	147	In order to give a boost to production in the agriculture sector, I propose to extend the benefit of investment linked deduction to businesses engaged in the production of fertilizers.	**Announcement Implemented** - Finance Act, 2011 has amended section 35AD of the IT Act to include the specified business of production of fertilizers in India for the purpose of investment-linked deduction.
101.	148.	Considering the importance of housing, I also propose investment linked deduction to businesses which develop affordable housing under a notified scheme.	The guidelines in this regard are being framed after consultations with M/o HUPA.
102.	149	In this Decade of Innovation, I enhanced the weighted deduction on payments made to National Laboratories, universities and Institutes of technology, for scientific research, to 175 per cent in the last budget. I propose to further enhance this to 200 per cent.	**Announcement Implemented** - Weighted deduction on payments made to National Laboratories, Universities and Institutes of technologies for scientific research has been enhanced to 200 percent by the Finance Act, 2011 with effect from 1.4.2012.
103.	150	In order to strengthen our system of collection of information from foreign tax jurisdictions, I propose to provide a toolbox of counter measures to discourage transactions with entities located in non-cooperative jurisdictions as may be notified by the Government.	**Announcement Implemented** - Finance Act, 2011 has inserted a new section 94A in the IT Act to provide toolbox of counter measures to discourage the transactions with entities located in non-cooperative jurisdiction.
104.	177	Works of art and antiquities are exempt from customs duties when imported for exhibition in a public museum or national institution. In recent years, many organisations have joined the cause of promoting and popularising both traditional and contemporary art. Some of them have been active in locating heritage works of Indian art and antiquities in foreign countries and bringing them back home. To encourage such initiatives, I propose to expand the scope of this exemption for works of art and antiquities to also apply to imports for exhibition or display, in private art galleries or similar premises that are open to the general public. Department of Culture will notify details of the scheme separately.	In accordance with the relevant Notification issued by D/o Revenue, the operational guidelines to regulate the concessions have been approved. The list of authorized officers has been drawn and the matter has been submitted for perusal of Hon'ble Minister of Culture, after which desired Notification regarding the concession scheme will be issued.

Annex continued

Sl. No.	Para No.	Summary of Budget Announcement	Status of Implementation
105.	184	The actual collections of Service Tax do not reflect the full potential of this sector. While retaining the standard rate of service tax at 10 per cent, I seek to achieve a closer fit between the present service tax regime and its GST successor by:	**Announcement Implemented** - The following steps have been taken as a part of the Finance Act, 2011 and also through issue of Notifications in the Official Gazette:
		• Bringing in a few new services into the tax net to expand the tax base while ensuring that the impact is predominantly on sections of society that have the ability to pay;	• Two new taxable services have been introduced with effect from 1.5.2011 (a) restaurant services; (b) short term accommodation service.
		• Suitably expanding or rationalizing the scope of existing service categories;	• The scope of the existing service categories of insurance service, money changer service, commercial training or coaching, club or association service, legal consultancy, business support service, authorised service station services etc. have been expanded or rationalized in the Finance Act, 2011.
		• Rationalizing certain provisions relating to import of services and valuation;	• Notification has been issued to carry out the necessary changes in the import of services;
		• Modifying provisions of the Cenvat Credit scheme to achieve a more realistic balance between input credits and output tax and harmonising the provisions of the scheme across goods and services;	• Notification has been issued to carry out the necessary changes in the Cenvat Credit scheme;
		• Rationalizing penal provisions to reinforce the message that honest taxpayers would be facilitated and deviants would be dealt with severely; and	• Section 89 has been inserted in the Finance Act, 1994 to usher in stringent penal provision for the tax evaders;
		• Adoption of Point of Taxation rules for services which would shift the basis for tax collection from "cash" towards "accrual" basis as with Central Excise duty.	• Notification has been issued to introduce Point of Taxation Rules, 2011. Amendments to the rules have also been notified.
106.	194	Many experts have argued that it will be desirable to tax services based on a small negative list, so that many untapped sectors are brought into the tax net. Such an approach will be very conducive for a nationwide GST. I propose to initiate an informed public debate on the subject to help us finalise the approach to GST.	**Announcement Implemented** - Public debate has been initiated on the composition of 'negative list' for service tax, as an approach to Goods and Services Tax (GST).