Press Information Bureau
Government of India
Ministry of Finance

December 18, 2013

Year-End-Review of Ministry of Finance for the Year 2013

Economy Headed Towards Gradual Recovery & Growth Stabilization
Several Initiatives taken to Revive Economy

Year End Review

The Ministry of Finance, Government of India took several measures to revive the economy and maintain the tempo of growth. Though several external and domestic factors contributed to the slowdown of the economy, wide ranging initiatives were introduced in all major sectors at the policy level to meet the challenge during the year. At the same time, steps were also taken to stabilise markets and provide investor friendly environment.

Real Gross Domestic Product (GDP) grew by about 4.7 per cent, year-on-year, in the first half of the current financial year 2013-2014. This is much slower than the average growth rate of around 8 per cent achieved in the last decade. The deficient rainfall in the current year has resulted in the slowdown of the agriculture sector while a combination of global factors such as inflation, elevated levels of global prices, particularly crude petroleum and domestic factors resulted in a slowdown in the industrial growth.

Following are the highlights/achievements of the Department of Economic Affairs and Department of Expenditure**:**

DEPARTMENT OF ECONOMIC AFFAIRS

From the macro angle

➢ During the four year period, 2004-05 to 2007-08, Indian economy clocked an average growth close to 9 per cent, a commendable achievement by global standards. The economy grew at 9.5 per cent during the three-year period, 2005-06 to 2007-08, treading the path of moderate inflation, fiscal prudence and increase in savings and capital formation. These growth rates may be compared with growth rates of around 3.5 per cent achieved during the first three decades of its independence, 5.6 per cent during the 1980s, 5.8 per cent during the 1990s and 5.3 per cent during the four-year period 2000-01 to 2003-04, preceding the high-growth period.

As per the World Economic Outlook database, the share of India in the global GDP, at

(Purchasing Power Parity) PPP terms, increased from 3.2 per cent in 1990 to 5.7 per cent in 2012. As per the IMF data, India's share in the World exports increased from 0.7 per cent in 2000 to 1.7 per cent in 2011.

- India's growth story attracted attention from around the world when our economy grew at rate of 8 per cent per annum during the five year period, 2007 to 2012, despite the strong negative spill-over effects of the global financial crisis in the intervening period. India took the world by surprise by rebounding quickly from the slower growth of 6.7 per cent in the crisis-hit 2008-09 to record rates of growth of 8.6 per cent in 2009-10 and then 9.3 per cent in 2010-11. This was made possible by an appropriate policy framework set in by the Government which allowed space for fiscal expansion for incentivizing pick-up in growth.

- The level of saving and investment in the Indian economy in relation to its GDP, even at their reduced levels, is among the highest in the world.

- The Union Budget 2013-14 outlined several initiatives to boost investment, especially in rural and urban infrastructure. This included: encouragement to Infrastructure Debt Funds and enhancement of credit to infrastructure companies, raising the corpus of Rural Infrastructure Development Fund, and introduction of investment allowance for new high value investments. Progressive liberalization of FDI norms and the new gas pricing guidelines will help boost market confidence and encourage *new* investment. The setting up of the Cabinet Committee on Investment (CCI), with the Prime Minister as Chairman, has met several times to fast track clearances, approvals, monitoring and review of large investment projects, that has already made significant difference to the speed of approval and execution of investment projects. Projects worth over US$ 61 billion has been cleared by the CCI (up to August 27, 2013). This, combined with the enabling provisions of the new legislation for Land Acquisition, Rehabilitation and Resettlement will catalyze infrastructure investment.

- The announcement of the National Manufacturing Policy in 2011 aims at enhancing the share of manufacturing in GDP to 25% (from around 15% at present) within a decade and creating 100 million jobs. In a recent review of FDI policy, the Government has amended the sectoral caps and entry routes for foreign direct investment in a number of sectors including petroleum & natural gas, commodity exchanges, power exchanges, stock exchanges, depositories and clearing corporations, asset reconstruction companies, credit information companies, single brand product retail trading, telecom and courier services and defence. It is attracting higher levels of FDI already.

- **Inclusive growth:** An important agenda of the Government has been to ensure wider participation and greater inclusion in the growth process. The focus on inclusive growth, with a large number of programmes and projects, including the highly-hailed programme for employment assurance and asset creation in the rural areas, will be reinforced by the implementation of the Food Security Act. Official estimates indicate that the proportion of people living below the poverty line has declined from 37.2 % in 2004-05 to 21.9 % in 2011-12. This decline, which has been at a much faster rate than the previous decades, is an enormous achievement.

Foreign Investment

The Department of Economic Affairs houses the Foreign Investment Promotion Board (FIPB), which approves specific proposals for Foreign Direct Investment, FDI in select sensitive sectors. In the last 5 years till date, sixty seven (67) meetings of the FIPB have been held and a total of 1065 proposals aggregating an FDI Inflow of approximately Rs 1.74 lac crores have been sanctioned. Of course with successive liberalization efforts, the number of proposals which require prior approval of the Government is itself declining and in most sectors except for a few like Telecom, Defence and Media sectors, Foreign Direct Investment (FDI) can flow in through the automatic route much more foreign investment flows in through the automatic route. The continuous feedback received from the market participants and players enables the FIPB to play a very active role in formulation of the FDI policy which is otherwise the allocated business of the Department of Industrial Policy & Promotion.

Infrastructure

Financial Restructuring of State Owned Discoms:

Scheme for Financial Restructuring of State Owned Discoms to promote financial turnaround and long term viability of the State Discoms has been launched. This Scheme seeks to restructure the debt of State Discoms through a Transitional Finance Mechanism (TFM) supported by the Government of India.

Industrial Corridors

a. Delhi Mumbai Industrial Corridor (DMIC): Aims at developing an industrial Corridor on either side of the 1483 Km long Western Dedicated Rail Freight Corridor between Dadri (UP) and JNPT (Navi Mumbai). It covers six states – UP, Haryana, MP, Rajasthan, Gujarat and Maharashtra. Four projects have been included in the Rolling Plan of DMIC Projects in 2013.

b.

c. Chennai-Bengaluru Industrial Corridor: Terms of Reference for preparation of the comprehensive regional perspective plan under preparation. The feasibility study for the Dedicated Freight Corridor (DFC) between Chennai-Bengaluru has been awarded to RITES.

d. Amritsar Delhi Kolkata (ADK) Industrial Corridor: structured around the Eastern Dedicated Freight Corridor (EDFC) as the backbone and also the Highway system that exists on this route. The ADKIC will cover Punjab, Haryana, Uttar Pradesh, Uttarakhand, Bihar, Jharkhand and West Bengal.

e. Bengaluru-Mumbai Economic Corridor (BMEC): Being planned in cooperation with United Kingdom. Both the countries have agreed to co-finance the feasibility study for the Project. The comments/views of the UK authorities on the draft have been received and are being processed in DIPP. Joint Secretary, DIPP will be the focal point on Indian side for the project. The Delhi Mumbai Industrial Corridor Development Corporation (DMICDC) would be the nodal agency from the Indian side. The UK side has also confirmed the Nodal agency and officer. The draft modalities as well as cost sharing arrangements for conducting the feasibility study are under discussions.

(i) Regulatory Institutions are being instituted in the following sectors:
a) Civil Aviation Authority
b) Rail Tariff Authority
c) Coal Regulatory Authority
d) Road Sector

➢ **Others**: Numerous representations from various Organizations/ Ministries/ Departments were received for inclusion of new sub-sectors in the Harmonised Master List of Infrastructure Sub-sectors. All these representations were processed, 3 meetings of Institutional Mechanism were held and three new sub-sectors namely Ports, Slurry Pipelines and Telecommunication & Telecom Services have been included in the Harmonised Master List. A Harmonised Master List of Infrastructure Sub-sectors was notified in March, 2012.

Public Private Partnership

a. **261** PPPAC projects approved with the total Project Cost of Rs **270540.45 crore.**

b. **149** projects approved by EI, with a Total Project Cost of Rs **79564.95** crore. Total VGF approved = Rs **15745.28 crore**

c. **30** projects approved by EC with Total Project Cost of Rs **54733.00 crore.** Total VGF approved= Rs **10922.60 crore**

d. **52** projects approved for IIPDF with Total Project Development Expenses (PDE) Rs 5432.00 lakh.

e. Approx. **62** SFC Projects with Total Project Cost Rs **11857.83** crore.

Infrastructure financing

(i) Cabinet Committee on Investment: Based upon the concept proposed by the DEA, the Government has set up the Cabinet Committee on Investments (CCI) on 2nd January 2013 with the Prime Minister as the Chairman to expedite decisions on approvals/clearances for implementation of projects. This is likely to improve the investment environment by bringing transparency, efficiency and accountability in accordance of various approvals and sanctions.

The CCI will monitor and review the implementation of major projects to ensure accelerated and time-bound grant of various licenses, permissions and approvals. CCI has initiated action for ddebottlenecking of stalled projects in the sectors such as Power, Petroleum & Natural Gas, Mines, Coal, Commerce & Industry- Commerce, Shipping and Commerce & Industry- DIPP. It is estimated to have bottlenecked about 200 projects. It has been informed that PMG has resolved 93 projects with total estimated cost of Rs. 353725.95 crore.

(ii) Infrastructure Debt Funds: One major problem faced by banks while disbursing loans to infrastructure projects is the asset liability mismatch inherent with these projects. Therefore many such projects are denied financing by banks. IDFs through innovative means of credit enhancement is expected to provide long-term low-cost debt for infrastructure projects The cost and tariff of Infrastructure services are likely to go down as a result of low cost long term debt provided by IDFs. Further, buy-out guarantee from Project Authority will enable IDF-NBFC to maintain zero NPAs. The taking over of existing bank debts by IDFs will release an equivalent volume for fresh lending by banks to infrastructure projects.

IDFs are an innovative attempt for addressing the issue of sourcing long term debt from foreign investors for infrastructure projects. The Government has taken various steps to promote these IDFs with a view to make available the financing needs of the infrastructure in the economy.

The Cabinet Committee on Infrastructure (CCI) has approved the Model Tripartite Agreement (MTA) for Infrastructure Debt Funds (IDFs) in November 2012. Similar MTA for the Port Sector is under consideration and is likely to be approved soon. The Model Tripartite Agreements will facilitate early Operationalisation of the IDFs. In addition, the Cabinet Committee on Economic Affairs, on 24.9.2013, has also approved Cabinet Note on "Operationalisation of Infrastructure Debt Funds (IDFs)-Removal of Certain Impediments. The said Cabinet decision seeks to remove certain impediments being faced by IDFs operational currently. This is likely to boost investment climate and IDFs are likely to announce investment in a very short period.

(iii) Tax Free Bonds: The Government has allowed the issue of 'Tax Free Bonds' to mobilize much needed long-term funds for the infrastructure development. These funds will go a long way to address the needs of infrastructure deficit, especially in sectors such as roads, ports, airports and power, which are essential for economic growth in any country. Pursuant to the Budget Speech for 2013-14, thirteen PSUs have been authorised to issue Tax Free Bonds amounting to Rs. 48,000 crore, in Aug, 2013, for Financial Year 2013-14.

(iv) Investor's Conclaves / Road Shows: To propagate initiatives of Government of India to promote infrastructure financing amongst the off-shore investor community, several events were organized in major centres i.e. London, Japan, Canada, USA, UAE etc. which were attended by Finance Minster and senior officials of DEA. These events besides raising awareness amongst the off-shore investor community also gave an opportunity to flag issues which hamper flow of foreign investment.

National Skill Development

Government of India has setup National Skill Development Council (NSDC) as part of a national skill development mission to fulfill the growing need in India for skilled manpower across sectors and narrow the existing gap between the demand and supply skills. The target for NSDC is to provide employable skills to 150 million young Indians by 2022. Its mandate is to enable support systems such as quality assurance, information systems and train the trainer academies either directly or through partnerships and setting up Sector Skill Councils. NSDC Board has approved setting up of 27 Sector Skill Councils (SSC), of which 17 have started operations. These are in the fields of healthcare, gems & jewellery, automotive, rubber, telecom etc. NSDC has trained 9.1 lakh individuals till date. A training capacity of 16.39 million has been created by the NSDC.

Reforms in Capital Market

- The Government is committed to take all necessary steps to revive growth, boost investment, create conducive business environment, improving efficiency and depth of the markets, wider participation of investors and strengthening of the regulatory and institutional framework to channelize greater investments and to achieve potential growth of the Indian economy. Keeping in view the evolving macro economic situation including high CAD and its financing, volatile market conditions, excessive volatility in USD-INR exchange rate, withdrawal of portfolio investments due to indications of US Fed QE tapering etc., over the last few months, the Government in consultation with RBI & SEBI has made concerted efforts & instituted several measures to attract Off-shore Portfolio Investment & Improving Investors' appetite.

- **Enhancement of FII Debt Limits** : The Government in consultation with RBI has progressively enhanced the limits for FII investments in domestic debt (G-Sec as well as Corporate debt) market keeping in view India's evolving macroeconomic scenario, its increasing attractiveness as an investment destination and need for additional financial resources for India's growing private corporate sector while balancing its monetary policy. In addition, the limits for FIIs investments have also been enhanced in order to have wider participation of FIIs, ensure enough liquidity and to add adequate depth in the domestic debt market. The FII debt limits have now been enhanced to 81 billion (Corp. Bond USD 51 bn & G-Secs USD 30 bn) from the earlier 66 billion (Corp. Bond USD 46 bn & G-Secs USD 20 bn).

- **Integration and simplification of FII Debt Limit Framework**: In order to encourage greater foreign investment in INR denominated debt instrument and to help develop rupee debt markets, framework of FII debt limits has been simplified/rationalized by inter-alia unifying various sub-limits into two broad categories namely G-Secs and Corporate Bonds; opening the entire limit for all class of foreign portfolio investors and adopting On-Tap System for allocation of limits. The salient features of integrated debt framework are as under:
The debt limits has been merged into following two broad categories:

a. **Government securities of US$ 30 billion** (by merging Government Securities old and Government Securities long term) and,

b. **Corporate bonds of US $ 51 billion** dollars (by merging US $ one billion for QFIs, US 25 billion dollars for FIIs and US $ 25 billion for FIIs in long term infra bonds).

➢ **Simplification of KYC for foreign Investors & adoption of Risk based KYC**: SEBI vide its circular dated September 12, 2013 has detailed KYC requirements of Eligible Foreign Investors investing through PIS route. The requirements are based on the recommendations of "Committee on Rationalization of Investment Routes and Monitoring of Foreign Portfolio Investments" under the Chairmanship of Shri K. M. Chandrasekhar.

➢ **Implementation of K.M. Chandrasekhar Committee Recommendations**: K.M. Chandrasekhar Committee set up by SEBI to harmonize various routes of portfolio investment and convergence of different KYC norms and adoption of a risk-based approach to KYC submitted its report on June 12, 2013. Subsequently the draft Foreign Portfolio Investors (FPI) Regulation 2013 was prepared based on the KMC recommendations and the same has been approved by SEBI Board on October 5-2013.

➢

➢ **Other Initiatives**: Satisfactory resolution of GAAR / retrospective taxation issues for foreign investors. Reduction in WHT from 20 % to 5 % for ECBs, G-Secs & Corp. Bonds.
Standing Council of Experts has been constituted to analyze and advice on international competitiveness of the Indian financial sector.

Secondary Market

➢ **Implemented the Rajiv Gandhi Equity Savings Scheme (RGESS):** Pursuing the Union Budget announcement of 2012-13, Government on 23rd November 2012 notified a new tax saving scheme called "Rajiv Gandhi Equity Savings Scheme"(RGESS), exclusively for the first time retail investors in securities market. The Scheme was launched in February 2013 and is implemented through depositories. RGESS has been further liberalized in the Union Budget 2013-14 to enable the first time investor to invest in listed mutual funds and equity for three successive years, instead of the present provision of one year. The income limit applicable for RGESS beneficiaries has been raised from Rs. 10 Lakh to Rs.12 Lakh.

Electronic Voting Facility made mandatory for top listed companies: Union Budget 2012-13 has made it mandatory for top listed companies to offer electronic voting facility to its shareholders. Vide circular dated 13 July 2012, SEBI initially made e-voting mandatory for the top 500 listed companies at BSE and NSE in respect of business to be transacted through postal ballot. This was applicable for shareholder meetings, for which notices were issued on or after October 01, 2012. This will enhance corporate governance standards and will thereby encourage greater participation of small investors in corporate decision making.

➢ **Granted Income Tax Exemption to Investor protection Funds of Depositories (Budget Announcement):** Vide Union Budget 2013-14, Income tax exemption presently granted to the investor protection funds of stock / commodity exchanges, has been extended to the funds set up for the same purposes by Depositories. This would give a boost to the investor protection and awareness programmes.

Financial Sector Legislative Reforms Commission (FSLRC):

During the Budget speech of 2010-2011, Hon'ble FM had announced setting up of the Financial Sector Legislative Reforms Commission (FSLRC) with a view to rewriting and cleaning up the financial sector laws to bring them in tune with current requirements. The Resolution notifying the FSLRC was issued by the Government on 24 March 2011.

On 22 March 2013, the Commission submitted its Report to the Government. The recommendations of the Commission can broadly be divided into two categories;
a. the recommendations which potentially involve institutional restructuring through rigorous legislative enactment such as creation of additional or new institutions or transformation of existing institutions; and

b. The recommendations which can be operationalised in the existing financial regulatory framework.

DEPARTMENT OF EXPENDITURE

1. In order to enhance transparency and accountability and make public procurement more efficient a Central Public Procurement portal has been established. It has been made mandatory from 1st January 2012 that all Government Department/Central Public Sector Undertakings should place their tender inquiries, details of the contracts awarded etc in the portal. Further all procurements estimated to cost above Rs 10 lakhs are to commence e-procurement. This would also help in monitoring delays and reduce the procurement cycle. Further a Public Procurement Bill is under consideration of the Parliament.

2. The State Governments are supported through Non-Plan grants as per recommendation of the Finance Commission whose recommendations are valid for a period of five years. The Commission recommends various areas where allocations are to be provided including grants-in-aid t as various activities. The current recommendations are valid upto March 2015. The Government has already set a new Finance Commission (XIV) whose recommendations are expected in the next year.

3. The Government of India has a unique Central Plan Scheme Monitoring System CPSMS). This is a web-based online transaction system for fund management and e-payment to implementing agencies and beneficiaries. The system is envisaged as a end to end solution for fund management of Plan Schemes of the Government. It helps in establishment of an effective expenditure information network; maintain a centralised data base of all important agencies administering various Schemes up-to the lowest level in a district, capture information on beneficiaries etc. The system also helps in direct transfer of funds to accounts of beneficiaries on real time basis and brings in transparency.

4. The Government of India is providing subsidy on Petrol, diesel, public distribution

kerosene and domestic liquefied petroleum gas. In order to contain the oil subsidy bill, the Government has decided to sell diesel to bulk consumers at non-subsidized market determined price to avoid under-recoveries. Similarly, the annual quota of public distribution kerosene is being continually reduced. Further the supply of subsidized domestic liquefied petroleum gas per consumer has been capped at 9 cylinders per annum.

5. DIRECT BENEFITS TRANSFER (DBT)

- The Government launched Direct Cash Transfer scheme on 1 January 2013 to transfer cash directly into bank accounts of beneficiaries across different districts in the country. The scheme has now been rechristened as Direct Benefits Transfer (DBT) Scheme.
- DBT covers schemes including scholarships, Janani Suraksha Yojana, Indira Awas Yojana, Unemployment assistance, payment of Pension and wages for work under MGNREGA etc. among others.
- DBT also covers schemes where in Govt. will transfer subsidies in form of cash directly in the bank accounts of the different beneficiaries such as LPG subsidies etc.
- Purpose of having DBT is to ensure accurate targeting, avoid duplication, reduction of fraud and corruption and bring greater accountability and elimination of wastes in subsidy transfer.
    - Prerequisites for taking benefit of DBT
        i) Name of beneficiary in the digitized database of beneficiary.
        ii) To have Aadhaar card/ number.
        iii) To open a bank account in name of beneficiary

****