# SPEECH OF
# SHRI YASHWANT SINHA,
# MINISTER OF FINANCE,
# INTRODUCING THE BUDGET FOR THE YEAR 2000-2001*

**Highlights**

— *Creation of a Micro Finance Development Fund*

— *National Commission on Land Use Policy to be set up*

— *Scheme of Sarva Shiksha Abhiyan*

— *Launching of Pradhan Mantri Gramodaya Yojana*

— *Introducing Janashree Bima Yojana*

— *New Millennium Indian Technology Leadership Initiative*

— *Proposal for a Single Rate CENVAT*

Sir, I rise to present the first budget of this Millennium.

This budget for 2000-2001 has some other firsts to its credit also. It is the first budget of the new Government which took office in October 1999 under the visionary leadership of Shri Atal Bihari Vajpayee. It is also the first budget of second half century of our Republic and the first budget of the new century. I hope it will add many more firsts to its credit as time goes by. I thank the Hon'ble Prime Minister for entrusting me with this historic responsibility which I stand here to discharge in all humility.

The year 1999-2000 has been a year of many challenges: the 50 day war in Kashmir, the super cyclone in Orissa, long months of political uncertainty before the general elections, a somewhat weak monsoon, a near tripling of world oil prices and the continued fragility in world economic recovery. Nevertheless, we have met these challenges resolutely, accomplished a great deal and the nation is stronger as a result.

The economy's performance is described in detail in the Economic Survey I laid before the House yesterday. Let me just touch a few highlights.

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* *Lok Sabha Debate*, 29.2.2000, cc. 391-427.

A broad-based industrial recovery is under way. Despite lower growth of agriculture due to inclement weather, overall economic growth this year is expected to be nearly 6 per cent. The infrastructure sector is performing much better. For the first time in 17 years the inflation rate has stayed below 4 per cent for 42 consecutive weeks. Even more remarkable, the Consumer Price Index (Industrial Workers) in November 1999 showed zero increase over the previous November. This is an enormous boon for the weakest sections of our society. Public food stocks are at record levels. Exports have achieved a remarkable turn around from negative growth last year to nearly 13 per cent growth in dollar terms in April-December 1999. Our software exports are also booming. Although surging international oil prices have increased our oil import bill by more than $6 billion, our foreign exchange reserves have nevertheless attained new record levels. With the return of investor confidence our stock markets have also soared to new heights.

In my last two budgets I have addressed the accumulated shortcomings in our policies and freed our companies to compete globally. We have strengthened our agricultural sector, energised our financial markets and laid the foundations of an exciting new economy. With this, my third budget, I propose to put Indian on a sustained, equitable and job-creating growth path of 7 to 8 per cent per year in order to banish the scourge of poverty from our land within a decade. The next 10 years will be India's decade of development. To achieve this objective our strategy must encompass the following elements:

- Strengthen the foundations of growth of our rural economy, especially agriculture and allied activities.
- Nurture the revolutionary potential of the new knowledge-based industries such as infotech, biotechnology and pharmaceuticals.
- Strengthen and modernise traditional industries such as textiles, leather, agro processing and the SSI sector.
- Mount a sustained assault on infrastructure bottlenecks in power, roads, ports, telecom, railways and airways.
- Accord the highest priority to human resource development through programmes and policies in education, health and other social services, with special emphasis on the poorest and weakest sections of society.
- Strengthen our role in the world economy through rapid growth of exports, higher foreign investment and prudent external debt management.

- Establish a credible framework of fiscal discipline, without which the other elements of our strategy can fail.

In all these areas we must pursue thorough-going economic reforms to unlock the creative energies of our people and thus reap the gains of productivity growth. But our reforms must also be guided by compassion and justice. In his Address to Parliament in October 1999, the President has set out the broad outlines of our programme of second generation reforms. This budget carries forward the process of implementation.

### Fiscal Management

Today, we must squarely confront and overcome the critical challenge posed by a weakening fiscal situation. A long history of high fiscal deficits has left us with a legacy of a huge public debt and an ever-growing bill of interest payments. This year we have incurred unanticipated expenditure on national defence, elections and the super cyclone in Orissa. The residual impact of the Fifth Pay Commission and the need for special fiscal assistance to the States have added to our burden. All this, combined with shortfalls in receipts from disinvestment and revenue, has raised our net borrowing requirements our fiscal deficit to over Rs. 1,00,000 crore. This will add about Rs. 10,000 crore to our interest bill next year. We must also find additional resources for Plan, Defence and for additional transfers to States under the interim award of the Eleventh Finance Commission. If we do not raise the resources and instead take recourse to even higher borrowing next year, then we will jeopardise our prospects for growth, reignite the flames of inflation, sow the seeds of another balance of payments crisis and place an unfair burden on the next generation.

We must put our fiscal house in order. This means hard decisions and sacrifices. At the same time we must preserve the intrinsic dynamism of our economy, which alone can deliver sustained growth with social justice. For this reason, despite the severe fiscal strain, the budget support to the plan is being increased by Rs. 11,100 crore to a level of Rs. 88,100 crore compared to Rs. 77,000 crore in Budget Estimate 1999-2000.

Similarly, there cannot be any compromise on Defence. Our forces have once again demonstrated in Operation Vijay that they are second to none in the world. Government is committed to enhance the quality of our defence preparedness and to modernise our forces. In this budget, I have made a provision of Rs. 58,587 crore for defence, which is nearly Rs. 13,000 crore more than in Budget Estimate for the current year. This represents the largest ever increase in the defence budget in any single year. More will be provided whenever needed. We shall not shrink from making any sacrifice to guard and protect every inch of our beloved motherland.

Over the years, the composition of Central Government expenditure has become highly rigid and prone to large, pre-committed increases. More than half of the annual budget outlays are transfer payments. Interest payments, Defence, Internal Security, Major Subsidies, Salaries, Allowances and Pensions and non-plan grants to States account for about 95 per cent of non-plan expenditure and about 70 per cent of total expenditure. To curb built-in expenditure growth and bring about structural changes in the composition of our expenditure, I am introducing the following initiatives:

- All ongoing schemes will be subjected to rigorous zero-base budgeting scrutiny. I had announced this initiative last year and I am glad that this exercise has been completed in 8 Departments. As a result, 69 schemes are to be discontinued or merged. This process will be completed in a time-bound manner in the remaining Departments.
- The manpower requirements of Government departments will be reassessed by reviewing the norms for creation of posts.
- Fresh recruitment in Government departments and institutions will be limited to minimum essential needs.
- The scheme for redeployment of surplus staff will be made more effective and will provide facilities for re-training. A Voluntary Retirement Scheme (VRS) will also be introduced for staff in the surplus pool.
- All subsidies will be reviewed with a view to bringing in cost-based user charges wherever feasible.
- No new autonomous institutions will be created without approval of Cabinet. Budgetary support to autonomous institutions will be reviewed and they will be encouraged to maximise generation of internal resources.
- In order to align with the overall interest rate structure, the interest rate on General Provident Funds is being reduced by 1 per cent to 11 per cent from 1 April 2000.
- Excessive domestic borrowings to finance current expenditure has resulted in debt service payments approaching unsustainable levels. To reduce expenditure on this account, a portion of the disinvestment proceeds will be earmarked for retiring Government debt. An initial provision of Rs. 1,000 crore has been made in the budget for this purpose.

I will have something more to say on major subsidies a little later.

These measures are necessary and are only a beginning. We shall pursue resolutely the objective of downsizing Government and prepare a roadmap for the purpose. For medium-term management of the fiscal deficit we also need the support of a strong institutional mechanism embodied in a Fiscal Responsibility Act. This had been suggested in the Agenda for Governance of the National Democratic Alliance. I have set up a committee to examine this issue and make suitable recommendations. I hope to bring the necessary legislative proposals to the House during the course of the year.

The challenge of fiscal management is not confined to the Central Government. The financial position of the State Governments has deteriorated sharply in the last few years. Revenue deficits have widened and borrowings are being increasingly used to meet revenue expenditure. Fiscal reform at the State level has acquired great urgency. While we have gone out of our way to help State Governments, the determination shown by some States to deal with these issues has also helped enormously. It will be my endeavour to take further collective measures in the next year for promoting fiscal reforms in the States. The final report of the Eleventh Finance Commission will provide valuable inputs for taking policy initiatives in this regard.

## Agriculture and Rural Development

It is my firm belief that sustained and broad-based growth of agriculture is essential for alleviating poverty, generating incomes and employment, assuring food security and sustaining a buoyant domestic market for industry and services.

We must take all necessary measures to strengthen the rural economy. Credit flow to agriculture through institutional channels of commercial banks, cooperative banks and Regional Rural Banks is estimated at about Rs. 41,800 crore this year. It is expected to increase by over 20 per cent to a level of Rs. 51,500 crore in 2000-2001. In my last two budgets we have launched a wide array of initiatives to promote the flow of rural credit. In this budget I propose to strengthen the earlier programmes and launch further initiatives:

- The Rural Infrastructure Development Fund (RIDF) managed by NABARD has emerged as a popular and effective scheme for financing rural infrastructure projects. Last year I had announced an enhanced allocation of Rs. 3,500 crore from the banking sector for RIDF-V and extended the repayment period of loans to 7 years. The scope of RIDF was also widened to allow lending to *Gram Panchayats*, Self-Help Groups, NGOs and other eligible organisations for implementing village level infrastructure projects. This year the corpus of RIDF-VI will be increased to Rs. 4,500 crore and the interest charged on this lending will be reduced by half a per cent.

- Micro finance has emerged as an effective tool for alleviating poverty in many countries. In my last budget I had asked NABARD and SIDBI to cover 50,000 Self-Help Groups to develop micro enterprises. NABARD by itself is likely to link 50,000 such Groups to banks during the current year. NABARD and SIDBI will cover an additional one lakh Groups during 2000-2001. To give a further boost to this programme, a Micro finance Development Fund will be created in NABARD with a start up contribution of Rs. 100 crore from RBI, NABARD, banks and others. This Fund will provide start up funds to micro finance institutions and infrastructure support for training and systems management and data building. Special emphasis will be placed on promotion of micro finance enterprises in rural areas set up by vulnerable sections including women, Scheduled Castes, Scheduled Tribes and Other Backward Classes.
- The cooperative system is a crucial channel for credit in rural areas. However, over time, problems have developed, mainly because of excessive bureaucratization and the overlapping jurisdiction of State Governments and NABARD. Some State Governments have already taken legislative action to promote genuinely cooperative institutions. For rural credit, clear delineation of the supervisory role of RBI/NABARD on banking matters is also essential. To promote these two pre-requisites for a more vibrant rural cooperative credit system, I propose to establish a Fund in NABARD. The details will be worked out in the light of the forthcoming recommendations of the Capoor Committee earlier constituted by Government. In the meantime, RBI is advising the banks to accord priority to the credit needs of those cooperatives which are entirely controlled by user-members and managed by them prudently.
- The programme of Kisan Credit Cards is progressing very well. Cooperaitve Banks, Regional Rural Banks (RRBs) and Commercial Banks together have so far issued more than 50 lakh cards and card-cum-pass books to the farmers. I am asking NABARD and Commercial Banks to redouble their promotional efforts so as to issue an additional 75 lakh Kisan Credit Cards by March 2001.

- Due to our efforts at recapitalizing RRBs, 158 RRBs are posting operating profits. Out of these, 48 RRBs have been able to wipe out their accumulated losses. In view of the importance of the RRBs in rural financing, we will continue with this programme of strengthening the RRBs.

The Planning Commission and the Ministry of Agriculture have worked out modalities to integrate 28 ongoing separate Centrally Sponsored Schemes of agricultural development into one comprehensive programme. This will weed out duplication, enhance the productivity of the support programme and accord greater flexibility to State Governments to develop and pursue activities on the basis of regional priorities. This is a major step forward towards the goals of convergence and decentralisation that I had outlined in my budget last year.

There is urgent need to review and coordinate our long-term strategy at the National and the State levels on the pattern of land use in the country, development of agriculture in relation to the agro-climatic conditions in the different regions and preservation of our forest resources. We need to adopt an integrated approach to a number of related subjects such as preservation and development of the forest wealth, optimum utilisation of the wasteland, watershed development, safeguarding bio-diversity, etc. In view of the complexity of the issues involved, a National Commission on Land Use Policy comprising of experts in the relevant fields will be set up to examine the various aspects and make appropriate recommendations to Government.

Our Government stands fully committed to ensure that the fruits of economic reforms are shared by all sections of society, especially those living in rural areas and more particularly the Scheduled Castes, Scheduled Tribes and Other Backward Classes. Five elements of social and economic infrastructure are critical to the quality of life specially in rural areas: health, education, drinking water, housing and roads.

Even after 52 years of Independence, the provision of basic services in rural areas remains very unsatisfactory. Forty per cent of our villages are without proper roads; 1.8 lakh villages do not have a primary school within 1 km; 4.5 lakh villages have drinking water problems; some estimates indicate a shortage of 140 lakh rural dwelling units; rural health infrastructure suffers from large deficiencies. These large gaps in basic services in rural areas are not acceptable and Government is committed to removing them rapidly.

Universalisation of elementary education is one of our key objectives. A new Department of Elementary Education and Literacy has already been created under the Ministry of Human Resource Development to give a new thrust and focus to these efforts. Some new initiatives include a scheme for universalisation of elementary education called "S*arva Shiksha Abhiyan*" which would enable all children to enroll by 2003 and expansion of the District Primary Education Programme to cover the remaining districts in Uttar Pradesh, West Bengal, Orissa and Gujarat. On the literacy front the National Literacy Mission would be revamped so that the literacy rate can be raised to 75 per cent by the year 2005. The plan allocation for elementary education has been increased from Rs. 2,931 crore to Rs. 3,729 crore next year. A new Department of Drinking Water Supply in the Ministry of Rural Development has been set up to intensify the efforts and accelerate the pace of coverage. Our objective is to provide drinking water facilities in all rural habitations in the next five years. It is proposed to cover around 60,000 habitations and 30,000 schools in the next year. The outlay of the Department is being enhanced to Rs. 2,100 crore from Rs. 1,807 crore this year. The Reproductive and Child Health programme will receive Rs. 1,051 crore as against an allocation of Rs. 695 crore in 1999-2000. For rural housing schemes a provision of Rs. 1,710 crore has been made.

To impart greater momentum to these efforts, I am announcing the launching of a new scheme, the "*Pradhan Mantri Gramodaya Yojana*" with the objective of undertaking time bound programmes to fulfil these critical needs of the rural people. I am providing a sum of Rs. 5,000 crore separately for this Scheme in the Budget. Out of this, a sum of Rs. 2,500 crore will be earmarked for launching a nation-wide programme of constructing rural roads and improving rural connectivity. Under the Scheme, Central assistance will be provided to States for implementing specific projects in these sectors. The concerned Ministries in the Central Government will lay down the guidelines and monitor the implementation of these programmes. The erstwhile Basic Minimum Services Scheme will be merged with the new Scheme. Thus the overall provision in the Budget for schemes concerning the five basic needs of the rural population is more than Rs. 13,000 crore.

## Rural Housing

"Housing for All" has been identified as a priority area in the Agenda for Governance. For the coming financial year, a goal of providing 25 lakh dwelling units in rural areas has been fixed. Schemes for meeting the needs of different sections of society have been prepared:

(i) Under *Indira Awas Yojana*, it is proposed to provide more than 12 lakh houses for the people below poverty line. For this purpose, an amount of Rs. 1,501 crore is being provided in the Budget.

(ii) For families with an annual income of below Rs. 32,000 per annum assistance will be provided for construction of 1 lakh houses under credit-cum-subsidy scheme. An amount of Rs. 92 crore is being provided in the budget for this scheme.

(iii) The National Housing Bank will provide refinance to banks and housing finance companies for construction of 1.5 lakh houses under Golden Jubilee Rural Housing Finance Scheme.

(iv) To further improve the availability of housing finance in rural areas, Government have decided to provide equity support of Rs. 350 crore to Housing and Urban Development Corporation (HUDCO) during the Ninth Plan period. Of this, Rs. 200 crore have already been released and it is proposed to release a further amount of Rs. 100 crore in the next year. With this enhanced equity support, HUDCO will be able to leverage these funds and raise further resources to facilitate and provide finance for the construction of about 9 lakh houses in the rural areas in the coming financial year.

(v) The co-operative sector and voluntary agencies, etc. will support the construction of another 1.5 lakh houses.

### Social Security for the Poor

More than one-third of our population still lives below the poverty line. There is an imperative need to extend some social security cover to the poorest sections of our society. I have decided to introduce a new scheme of group insurance, "*Janashree Bima Yojana*", under which beneficiaries will have insurance cover of Rs. 20,000 in case of natural death, Rs. 50,000 in case of accidental death or total permanent disability and Rs. 25,000 for partial permanent disability due to accident. Premia will be fixed on an actuarial basis. Below poverty line participants in this Scheme will pay only half the premium, with the remainder being contributed from earnings of LIC's existing Social Security Fund, suitably augmented by Government. On this basis, the monthly premium to be paid by the beneficiary is expected to be Rs. 10 or less. This scheme will lay a firm foundation for insurance cover to the poorest in our country.

### Empowerment of Women

There is an urgent need for Improving the access of women to national resources and for ensuring their rightful place in the mainstream of economic development. Towards this objective, the Government will set up a Task Force under an eminent person to review all existing legislation and Government schemes pertaining to the role of women in the national economy. This Task Force will help us chalk out specific programmes for observing 2001 as "Women's Empowerment Year".

## Population, Health and Environment

Government have recently announced a new National Population Policy a key objective of which is to bring down total fertility rates to replacement levels by 2010. To operationalise this objective, the plan allocation of the Department of Family Welfare has been increased from Rs. 2,920 crore in Budget Estimate Rs. 3,520 crore next year.

Recognising the role of the Indian systems of medicine and homeopathy in our health care, the plan allocation for the concerned Department is being doubled. Emphasis will be placed on drug standardisation, quality control, modernising the colleges, drug testing laboratories and formulations. This will also help in boosting exports of herbal formulations.

We must preserve and nurture our forests and environment for future generations. Funds are being provided for regeneration of mangroves and creation of shelter-belts along the coastal line, bamboo regeneration and afforestation programme, encouragement of medicinal plants and eco-tourism. Preservation of the rural environment will raise the living standards of millions belonging to the weakest sections of our society.

## Small Scale Industry (SSI)

The SSI sector plays a vital role in industrial production, employment generation and exports. In the context of growing domestic and international competition, our strategy is to support this sector through promotional policies of credit and technology. For improving credit flow to SSI units, I propose the following:

- The requirement of providing collateral security is a major bottleneck to the flow of bank credit to very small units. RBI has recently issued instructions to dispense with the collateral requirement for loans up to Rs. 1 lakh. The limit is being further increased for the tiny sector from Rs. 1 lakh to Rs. 5 lakh.
- The existing composite loan scheme of SIDBI and banks helps small borrowers by providing working capital and term loans through a single window. To promote credit flow to small borrowers, the composite loan limit is being increased from Rs. 5 lakh to Rs. 10 lakh.

- I am asking the public sector banks to accelerate their programme of SSI branches to ensure that every district and SSI clusters within districts are served by at least one specialised SSI bank branch. Furthermore, to improve the quality of banking services, SSI branches are being asked to obtain ISO certification.
- Last year, I had announced that a credit guarantee scheme for SSI will be launched. I am glad to inform the House that a new Central Scheme for this purpose has been formulated and a provision for Rs. 100 crore has been made in the Budget. The Scheme will be implemented through SIDBI and will cover loans upto Rs. 10 lakhs from the banking sector. The guaranteed loans will be securitised and will be tradeable in the secondary debt-market.

SIDBI operates the National Equity Fund Scheme under which equity support is provided for projects up to Rs. 15 lakh. To further help SSI entrepreneurs, this limit will be raised from Rs. 15 lakh to 25 lakh.

SIDBI is presently administering the Technology Development Modernisation Fund Scheme for assisting technology development and modernisation of SSI units. The Scheme has certain concessional features including interest at prime lending rate for direct assistance and refinancing at 2 per cent below prime rate for indirect finance. The operation of this scheme is being extended by another 3 years.

The *Khadi and Village Industries Commission* (KVIC) has been playing a very important role as an instrument to generage large scale employment in the rural areas with low per capita investment. Government will continue to encourage the Khadi and Village Industry Sector so that its products can become more competitive. For intensifying marketing efforts, the KVIC will introduce a common brand name for its products and also set up a professionally managed marketing company for domestic as well as export marketing.

### Industry and Capital

In earlier millennia, India led the world on the basis of knowledge. Today history is repeating itself. Young Indian entrepreneurs are at the forefront of the infotech revolution, whether in Silicon Valley, Bangalore or Hyderabad. They have shown us how ideas, knowledge, entrepreneurship and technology can combine to yield unprecedented growth of incomes, employment and wealth. Companies unknown 5 years ago have become world leaders. We must do everything possible to promote this flowering of knowledge-based enterprise and job creation.

A key ingredient for future success lies in Venture Capital Finance. After a thorough review. I am proposing a major liberalisation of the tax treatment for venture capital funds. I will describe the details later. To simplify the procedures, SEBI will be the single point nodal agency for registration and regulation of both domestic and overseas venture capital funds. Venture activity is not limited to dot. com companies! Ideas and entrepreneurship, which merit venture finance, can be found in all sectors of the economy. The tax laws and SEBI guidelines are being formulated accordingly. I should add that this liberalisation will give a strong boost for Non-Resident Indians in Silicon Valley and elsewhere to invest some of their capital, knowledge and enterprise in ventures in their motherland.

In recent months stock markets have been buoyant all over the world, including India. Experience has taught us that there can be hard times as well. It is in such difficult times that institutions like investor protection funds of stock exchanges become really important. I will have something to say on this in part B of my speech.

Thanks to our prudent macro-economic management and calibrated approach to currency convertibility, we have successfully weathered the East Asian crisis of the past two years. But we must not confuse caution with timidity. We must encourage Indian firms and businesses to grow into strong, India-based multinationals. To promote this trend, it is necessary to accord our firms increasing flexibility to undertake capital account transactions, especially for acquisitions of businesses abroad. Last month, Government had announced a policy to allow Indian companies to raise funds for investments through issue of American Depositing Receipts (ADRs)/Global Deposit Receipts (GDRs) without prior Government approval. Up to 50 per cent of these proceeds can be used by them to acquire companies in overseas market. We had also announced on 27 December 1999, a liberalized mechanism for acquisition of software companies in the overseas market through stock swap options up to US$l00 million on an automatic basis. I plan to further liberalize this policy for acquisition of companies abroad to enable Indian corporates, in knowledge-based sectors to grow rapidly and lay the foundation for Indian multinationals in areas where we have comparative economic advantage. For acquisition in other sectors too, I propose to increase the ceiling under the automatic route from existing US$15 million to US$50 million for Indian corporates and beyond this, through approval by the Committee on Overseas Investment.

Under existing policy on portfolio investment, Foreign Institutional Investors (FIIs) are permitted to invest in a company, upto an aggregate 24 per cent of equity shares, which can be increased to 30 subject to approval by the Board of Directors and a Special Resolution of the General Body of the Company. To give our best companies greater access to foreign portfolio investment, I am increasing this limit from 30 per cent to 40 per cent.

### Science and Technology

The sustained growth of our knowledge-based industries will ultimately depend on the quality and extent of scientific and technological progress and training in our society. We must harness our potential in science and technology to realise the dream of modern India envisioned by the Prime Minister in his address to the Indian Science Congress last month. For taking up relevant technology vision projects and for increasing cooperation between our Universities and R&D institutions, I am making an additional provision of Rs. 50 crore in the budget of the Technology Information Forecasting and Assessment Council under the Department of Science and Technology. I am also making a provision of Rs. 50 crore in the budget of the Department of Scientific and Industrial Research for launching a New Millennium Indian Technology Leadership Initiative. It will focus on areas which fulfil national objectives and will be based on partnership between the Government and private sector.

To fully benefit from the new intellectual property rights regime, we need to encourage our scientists and R&D institutions to maximise their patenting efforts. Government have decided to allow Universities and Research Institutions to retain the revenue generated from intellectual property rights through publicly funded research and also share a part of the revenue with the inventor.

Modernisation of the Patent Office and the Trade Mark Register is long overdue. Government have sanctioned a modernisation project of Rs. 75 crore for the Patent Office and we will strive to remove all impediments for early implementation of this project.

### Banking and Finance

The recent East Asian crisis has underlined the critical importance of undertaking reforms to strengthen the banking sector. In recent years, RBI has been prescribing prudential norms for banks broadly consistent with international practice. To meet the minimum capital adequacy norms set by RBI and to enable the banks to expand their operations, public sector banks will need more capital. With the Government budget under severe strain, such capital has to be raised from the public which will result in reduction in Government shareholding. To facilitate this process, Government have decided to accept the recommendations of the Narasimhan Committee on Banking Sector Reforms for reducing the requirement of minimum shareholding by Government in nationalised banks to 33 per cent. This will be done without changing the public sector character of banks and while ensuring that fresh issue of shares is widely held by the public. The Committee had also expressed the view that the Boards of the banks should have sufficient autonomy to take decisions on corporate strategy and all aspects of business management and be responsible to the stakeholders, that is, the shareholders, the customers, the employees and the public at large. In particular, the interests of the employees of the nationalised banks will be fully safeguarded. It is proposed to bring about necessary changes in the legislative provisions to accord necessary flexibility and autonomy to the Boards of the banks.

As honourable members are aware, the Report of the Working Group on Restructuring Weak Public Sector Banks had suggested the constitution of a Financial Restructuring Authority (FRA). It has been decided to have a modified version of the FRA. Thus, in respect of any bank which is considered to be weak or potentially weak, the statutes governing public sector banks would be amended to provide for supersession of the Board of Directors on the basis of recommendations of the RBI and constitution of a FRA for such a bank, comprising experts and professionals. The amendments would also enable the FRA to exercise special powers including all the powers of the Board of the bank.

Government will not close down any public sector bank. As responsible owner of the banks, Government have decided to consider recapitalisation of the weak banks to achieve the prescribed capital adequacy norms, provided a viable restructuring programme acceptable to the Government as the owner and the RBI as the regulator is made available by the concerned banks.

The high level of Non-Performing Assets (NPAs) in our public sector banks is a cause for continued concern. Efficient and effective mechanisms for recovery of bank dues are critically important for reducing NPAs. I am happy to inform the House that comprehensive amendments have been carried out to the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 by issue of Ordinance. Five more Debt Recovery Tribunals (DRT) and four more Debt Recovery Appellate Tribunals have been set up or are in advanced stage of being set up. I further propose to set up four more DRTs at Mumbai and one more DRT each at Calcutta, Delhi and Chennai to facilitate expeditious adjudication and recovery of dues of banks and financial institutions.

The growth of fresh NPAs can also be curbed through better institutional mechanisms for sharing of credit related information on borrowers and potential borrowers among banks and financial institutions. A Working Group constituted by RBI to examine modalities for setting up a Credit Information Bureau has recently submitted its report. Based on its recommendation a Credit Information Bureau will soon be established.

In the fast changing world of modern finance, it has become necessary to accord greater operational flexibility to the RBI for conduct of monetary policy and regulation of the financial system. Accordingly, I intend to bring to Parliament proposals for amending the relevant legislation.

Similarly, to facilitate development of the Government debt market the legislative framework needs to be strengthened and modernised through a Government Securities Act which I propose to bring to replace the old Public Debt Act, 1944.

The Industrial Investment Bank of India is the only Calcutta-based development financial institution. To enable it to improve its viability and profitability by diversifying and extending its business, Government will subscribe to the preference capital of the company.

Non-Banking Financial Companies (NBFCs) perform a significant role as financial intermediaries and in promoting growth of industry and services. Over the past 3 years, RBI has taken a number of measures for strengthening the regulation of this sector with a view to ensuring that only financially sound and well run NBFCs are permitted to accept public deposits. I propose to bring a new bill which will strengthen the hands of depositors in situations of *malafide* or fraudulent actions of NBFCs.

## Infrastructure

Infrastructure services remain a key bottleneck to rapid and sustained growth of our economy. We have made substantial progress in encouraging private infrastructure service providers and in establishing independent regulatory frameworks in most infrastructure sectors. We have also sought to give greater operational and commercial autonomy to existing public entities in these sectors. We will be moving ahead with programmes for corporatisation of public sector service providers in the areas of telecommunications, ports and airports during the course of the coming year.

The Prime Minister has announced a major initiative for road development, the National Highways Development Project (NHDP). The cost of the project is estimated at around Rs. 54,000 crore. In my earlier budgets, I had announced the levy of cess of one rupee per litre on petrol and diesel and a substantial part of this is expected to be available for funding the NHDP. To further augment resources, for commercially viable components of this project, I shall have something more to say in Part B of my speech.

The plan outlay for the Central Public Sector Undertakings (PSUs) in the power sector has been increased from Rs. 7,626 crore to Rs. 9,194 crore. Increased budgetary support has been provided for the Tehri Hydro and the Nathpa Jhakri Hydro Projects so that both these projects can be commissioned by March 2002. For commissioning of high priority projects by State Electricity Boards (SEBs)/State generation companies, a provision of Rs. 300 crore has also been made for subsidizing interest on loans from Power Finance Corporation.

In order to give a fillip to the reform process in the power sector and for undertaking investments on renovation and modernisation of old and inefficient plants and for strengthening the distribution system, a new scheme for providing assistance to State utilities will be introduced. Under this scheme, additional Central Plan assistance of Rs. 1,000 crore will be provided to State and Union Territory Governments.

The State Electricity Boards have large overdues to the Central Sector Power and Coal utilities. A Scheme for securitisation of these dues with the support of Central Government has been finalized to assist the SEBs to clear these dues. Central Government support will be linked to reforms in the operation of SEBs.

Hon'ble members are aware that the Sethu Samudram Ship Canal Project has the potential of providing a shorter route between the East and West Coast Ports. I am glad to inform that the Government have approved the undertaking of a detailed feasibility study and environmental impact assessment of the project at a total cost of Rs. 4.8 crore. I have made necessary provision for this in the Budget.

## Disinvestment/Privatisation/Public Sector Restructuring

Government's policy towards the public sector is clear and unambiguous. Its main elements are:

- Restructure and revive potentially viable PSUs;
- Close down PSUs which cannot be revived;
- Bring down Government equity in all non-strategic PSUs to 26 per cent lower, if necessary; and
- Fully protect the interests of workers.

In line with this policy during the last two years financial restructuring of 20 PSUs has been approved by Government. As a result, many PSUs have been able to restructure their operations, improve productivity and achieve a turn-around in performance. Hon'ble members are aware that Government have recently approved a comprehensive package for restructuring of SAIL, one of our *Navaratna* PSUs.

There are many PSUs which are sick and not capable of being revived. The only remaining option is to close down these undertakings after providing an acceptable safety net for the employees and workers. Resources under the National Renewal Fund have not been sufficient 'to meet the cost of Voluntary Separation Scheme (VSS)' for such PSUs. At the same time, these PSUs have assets, which if unbundled and realised, can be used for funding VSS. Government will put in place mechanisms to raise resources from the market against the security of these assets and use these funds to provide an adequate safety-net to workers and employees.

Government have recently established a new Department for disinvestment to establish a systematic policy approach to disinvestment and privatisation and to give a fresh impetus to this programme, which will emphasize increasingly on strategic sales of identified PSUs. Government equity in all non-strategic PSUs will be reduced to 26 per cent or less and the interests of the workers will be fully protected. The entire receipt from disinvestment and privatisation will be used for meeting expenditure in social sectors, restructuring of PSUs and retiring public debt.

## The North-East Region

Government is committed to the speedy economic development of the North-Eastern States and Sikkim. Priority is being given for development of infrastructure, specially airports, railways, power and National Highways so as to remove the sense of isolation perceived in many parts of the North-East. To provide more facilities or vocational education, 50 more Industrial Training Institutes and 446 Computer Information Centres would be established in the North-Eastern States within the next two years.

For realizing the potential for agricultural and horticultural development in the North-East, schemes for minor irrigation and horticulture will be encouraged. A Technology Mission for horticultural development in the North-Eastern States will also be launched.

## Scheduled Castes and Scheduled Tribes

To promote literacy and to improve the education standards of persons belonging to Scheduled Castes, a new thrust will be given to the Post-Matric Scholarship Scheme. The budgetary provision for this Scheme is being increased from Rs. 72 crore to Rs. 130 crore. Emphasis under this Scheme will be on female literacy. Our Prime Minister has announced that it will be our national goal to liberate and rehabilitate around 6 lakh scavengers in the country. A new strategy will be devised under which scavengers will be organized into self-help co-operatives and provided assistance from the Government and the concerned Finance Development Corporations. To give a greater focus to the welfare of Scheduled Tribes, a new Ministry of Tribal Affairs has been set up. The plan allocation of tribal welfare has been substantially stepped up from Rs. 684 crore to Rs. 810 crore.

## Revised Estimates for 1999-2000

This has been a difficult year for the budget marked by expenditure over-runs and some deceleration in tax collection. The increase in budgeted expenditure has been 7 per cent whereas shortfall in budgeted tax collection is estimated to be 4 per cent. The non-plan expenditure has increased by Rs. 17,461 crore (8.4 per cent over budget estimate of Rs. 2,06,882 crore) and the plan expenditure by Rs. 2,395 crore (3.1 per cent over budget estimate of Rs. 77,000 crore). Major increases in non-plan expenditure are on account of pension payments (Rs. 4,173 crore), interest payments (Rs. 3,425 crore), Extended Ways and Means Advances to States (Rs. 3,000 crore), Defence (Rs. 2,810 crore), Interest subsidies (Rs. 1,304 crore), food subsidy (Rs. 1,000 crore), postal deficit (Rs. 848 crore) and assistance to States from the National Calamity Relief Fund (Rs. 1,064 crore). On the plan side, main increases are on account of National Highway Development (Rs. 1,900 crore), State roads (Rs. 1,000 crore), Railway safety (Rs. 200 crore), special assistance to Jammu and Kashmir and enhanced assistance to States for externally aided projects. About Rs. 500 crore are expected to be released for projects/schemes in the North-Eastern region and Sikkim out of the savings from the budget of different Central Ministries.

Net tax revenues for the Centre are estimated at Rs. 1,26,469 crore against Rs. 1,32,365 crore budgeted, reflecting a shortfall of about Rs. 5,900 crore. The shortfall is mainly due to lower customs revenue because of very low growth in the dollar value of non-oil imports and lower excise revenue resulting from low inflation in manufactured products for most of the year. Disinvestment receipts are expected to be Rs. 2,600 crore against Rs. 10,000 crore budgeted.

The fiscal deficit is thus likely to increase to 5.6 per cent of GDP from the budget target of 4.0 per cent.

## Budget Estimates for 2000-2001

In the budget estimates for 2000-2001, the total expenditure is estimated at Rs. 3,38,487 crore, of which Rs. 88,100 crore is for plan and Rs. 2,50,387 crore for non-plan.

## Plan Expenditure

The budget support for Central, State and UT Plans has been placed at Rs. 88,100 crore, marking an increase of Rs. 8,705 crore over revised estimates 1999-2000. Gross budgetary support for the Central Plan is being enhanced from Rs. 43,661 crore in the revised estimates 1999-2000 to Rs. 51,276 crore. Total Central Plan outlay at Rs. 1,17,334 crore will be more by Rs. 21,024 crore from the last year's level of Rs. 96,310 crore, a hefty 22 per cent increase. The plan for 2000-2001 focuses on basic infrastructure with energy, transport and communications accounting for 60 per cent of total Central Plan Outlay. The Outlay for Social Services marks an increase of 21.5 per cent over 1999-2000 Revised Estimates (R.E.).

Central Plan assistance to States and Union Territories in 2000-2001 is placed at Rs. 36,824 crore as compared to Rs. 35,735 crore in the Revised Estimates 1999-2000.

## Non-Plan Expenditure

Non-plan expenditure in 2000-2001 is estimated to be Rs. 2,50,387 crore compared to Rs. 2,24,343 crore in Revised Estimates for 1999-2000, showing an increase of Rs. 26,044 crore. The increase in non-plan expenditure is mainly in defence (Rs. 10,083 crore), interest payments (Rs. 9,841 crore) and in grants to States (Rs. 9,392 crore). However, this increase is sought to be partially offset by reduction in outgo on account of food and fertiliser subsidies.

Major subsidies, on food and fertilizer, constitute a significant portion of our non-plan expenditure. The rate at which these subsidy payments are growing is not sustainable. We need to target the subsidies to those who are poor and needy, whereas others should pay for what they consume. Indeed, we want to expand the access to subsidised food by Below Poverty Line (BPL) families so that they can meet their basic nutritional needs. Accordingly, from next year, we are doubling the allocation of foodgrains to BPL families, under the Targeted PDS, from 10 kg. to 20 kg. This will result in an enormous gain in food security for our poorest families. The issue price of foodgrains of BPL families is being fixed at 50 per cent of economic cost in line with the decision taken by Government in December 1996. The net effect of these measures will be to improve the monetary food budget of BPL families and vastly enhance their food security. This achievement is possible only by simultaneously fixing the PDS issue price for APL families at the economic cost. In respect of sugar, no allocation will be made under PDS for income tax assessees. For others, keeping in view the increase in the levy price of sugar, the issue price under PDS is being fixed at Rs. 13 per kg. As a result of these measures, I expect to keep the expenditure on food and sugar subsidy at Rs. 8,210 crore in 2000-2001.

In the case of fertilizer subsidy, members are aware that our present Retention Price Scheme suffers from many shortcomings. Much of the subsidy goes to producers and not to farmers. To encourage greater efficiency of our fertilizer units, some rationalisation of the Retention Price Scheme, including capping of capital related charges, will be implemented from next year. The Ministry of Chemicals and Fertilizers will also bring out soon a road-map for phasing out the Retention Price Scheme in the medium-term. Separately, to take into account the rising cost of inputs, the maximum retail price of Urea is being raised by 15 per cent. The rate of concession in the case of decontrolled fertilizer is also being reduced. However, to moderate the impact on prices the MRP of DAP and MOP is being raised only by 7 per cent and 15 per cent respectively. I expect that, because of these changes and some rationalisation of Retention Price Scheme, the expenditure on fertilizer subsidy will be Rs. 12,651 crore in 2000-2001.

The Eleventh Finance Commission has since submitted its interim report for making provisional arrangements of tax devolution and grants to States for 2000-2001. Government have accepted the devolution formula and quantum of grants to States, as recommended by the Commission in its interim report. I have made provisions in the budget accordingly.

## PART B

Sir, I now present my tax proposals. I take up indirect taxes first.

Hon'ble members are aware that both the Centre and the States depend heavily on indirect taxes. While I did carry out a major restructuring of the excise rates last year, the process needs to be taken further. We need to overhaul the rate structure, rationalise and simplify the procedures to reduce the compliance cost for the tax payer. We must ensure that we concentrate on increasing production and absorbing new technologies rather than frittering away our energies on tax disputes.

Sir, my proposals in excise intend to establish a single rate Central Value Added Tax (CENVAT) at the Centre. I am convinced that nothing short of this can provide long term stability, remove uncertainties in the mind of industry, and eliminate disputes of classification. This will also encourage the States to implement their agreed programme for converting their sales taxes into VAT by 1 April 2001.

The House may recall that in my last budget, I had introduced three *ad-valorem* rates of basic excise duty, *viz.,* 8 per cent, 16 per cent and 24 per cent. I propose to converge these three *ad-valorem* rates to a single rate of 16 per cent CENVAT.

The 8 per cent excise rate is therefore being abolished and most of the items at this rate are being moved to 16 per cent. However, certain items, essentially covering medicare and items of use by the common man, are being exempted from the excise duty. These are:

**Medical Items**

- Medicinal grade oxygen;
- Medicinal grade hydrogen per-oxide;
- Anaesthetics;
- Potassium iodate; and
- Medical and surgical gloves.

**Items of common use**

- Cutlery and knives;
- Household glassware, including glassware produced by mouth blown process;
- Electric bulbs of MRP up to Rs. 20 per bulb;
- Clocks and watches of MRP up to Rs. 500 per piece;
- Tooth powder;
- Sanitary towels, napkins for babies, etc.; and
- Soap for distribution through PDS.

I am including roasted chicory in the list of exempted items as coffee itself is free from excise duty.

I have also decided to exempt specified cold chain equipment, which had been provided a low rate of 8 per cent in the last budget, from excise duty in the larger public interest.

Some items, on account of their exceptional nature and sensitivity to price increases, deserve special treatment, at least for the present. These are Kerosene, LPG, Laundry soap, Cotton yarn, including cotton sewing thread, and some other varieties of yarns and Diesel engines up to 10 HP. The rate structure for these is, therefore, being so designed that there is no increase in their incidence of excise from the current level of 8 per cent and thus there will be no price increase on this account.

I have not made any change in the list of items that are currently charged to 16 per cent excise duty.

In addition to the 16 per cent CENVAT rate, I propose to have three rates of special excise of 8 per cent, 16 per cent and 24 per cent. Unlike the CENVAT rate, the special excise duties will not generally be modvatable, that is, users will not be able to avail of MODVAT credit of these duties.

For the items that are mainly in the nature of raw materials or intermediates, the 16 per cent CENVAT rate is appropriate. I, therefore, propose to include items like plastic materials, films and sheets of plastic, tread rubber, cellular rubber, articles of rubber, nylon filament yarn, transmission and conveyor belts of textile materials, and sacks and bags made of synthetic textile materials in the list of 16 per cent CENVAT, from the current level of 24 per cent. I am also including tyres for OE supplies and parts of air conditioning and refrigerating machinery in the list of 16 per cent CENVAT, without subjecting them to any special excise duty, since they are intermediate goods in the chain of production.

In addition, I am reducing the duty burden on a few other products that are also currently charged to 24 per cent duty. These items are sterile contact lens solution, *shikakai* powder without additives, and cars for physically handicapped persons. I feel that these items should not be loaded with a duty burden of more than 16 per cent CENVAT.

Ambulances purchased by registered hospitals are currently charged to a concessional rate of excise duty of 16 per cent. I am extending the same treatment to ambulances purchased by Indian Red Cross Society.

The other items that are currently charged to 24 per cent duty shall continue to bear the same incidence, comprising 16 per cent CENVAT and 8 per cent special excise duty.

In my new design of excise duty structure, the items that are now charged to a total duty of 30 per cent would be subjected to a total duty of 32 per cent, composed of 16 per cent CENVAT and 16 per cent special excise duty. This is only a marginal increase of 2 per cent, which, I am sure, the consumers of these commodities can afford to bear.

Items presently charged to a total duty of 40 per cent will now be composed of 16 per cent CENVAT and 24 per cent special excise duty. However, soft drink concentrate supplied to bottlers will be charged to CENVAT at 16 per cent only, being modvatable.

Let me now take up the MODVAT scheme and the changes that I plan to bring about. MODVAT scheme shall now be known as CENVAT scheme.

Over the years, disputes between the department and assessees on the interpretation of MODVAT rules and procedures have plagued the system. I propose to put an end to this situation. With effect from 1 April 2000, the plethora of existing rules will be replaced by a small set of simple and transparent rules, which, I am sure shall reduce disputes to a minimum.

I also propose to expand and rationalize the scope of the MODVAT scheme. All inputs and all capital goods are now included in the eligible list of MODVAT scheme. The only exception will be High Speed Diesel Oil and Petrol. However, I propose that the availability of MODVAT credit on capital goods will be spread over a period of two years, with effect from 1 April 2000.

My proposals include full extension of MODVAT scheme to cigarettes for the first time, which should cheer the industry. However, the good news for the cigarette manufacturers ends here. I propose to enhance the rates of excise duty on all categories of cigarettes by 5 per cent.

At present, MODVAT credit of Countervailing Duty (CVD) paid on project imports is restricted to the extent 75 per cent. This has been an irritant. This credit shall now be available for 100 per cent of the CVD. I have also decided to do away with the condition of installation as a pre-requisite for taking credit on capital goods.

Now, I shall deal with some sector specific proposals. I take up steel first.

Mr. Speaker, Sir, an *ad-valorem* structure of taxation is largely free from distortions, equitable and automatically buoyant. For the present, I propose to restore *ad-valorem* excise duty structure on steel produced by re-rollers and also to steel produced by induction furnaces. These goods would be subjected to CENVAT of 16 per cent with MODVAT benefit, from 1 April 2000. I may add that capacity based tax applicable to re-rollers and induction furnaces has created more problems than it has solved.

Under the existing law, excise duty on goods sold from the depots is charged on the basis of depot price and not the factory gate price. I have received representations that this has caused distortion in the marketability and distribution of steel. Deliveries of steel by integrated steel plants, whether from the plant or stockyard, will henceforth be assessed to duty at the factory gate price.

Sir, now I turn to the textile industry.

I had introduced a compounded levy scheme for independent textile processors in December 1998. This has not worked as well as expected and has led to leakages and revenue losses; still, I do not wish to disturb the scheme abruptly. However, to rectify the situation, I propose to raise the rates of compounded levy from the existing Rs. 1.5 lakh per chamber per month to Rs. 2 lakh per chamber per month and from Rs. 2 lakh per chamber per month to Rs. 2.5 lakh per chamber per month. My proposals also include some modifications in the scheme in order to plug the loopholes.

Units engaged in the texturising of duty paid polyester yarn would henceforth pay specific rate of excise duty. This should reduce the valuation disputes in respect of these units.

Small scale units enjoy duty free exemption on clearances up to Rs. 50 lakh a year. I am unable to raise this limit. However, with effect from 1 April 2000, I propose to rationalize the special schemes prevalent for cosmetics and toilet preparations, air-conditioning and refrigerating machinery and their parts, tread rubber and articles of plastics to fall in line with the general scheme of exemption for small scale units.

Sir, I now come to the next part of my proposals which relate to streamlining and simplification of the system. These are aimed at unshackling the excise procedures from the slavery of complexities and rigidities, and making them simple and user-friendly. I may add that like my rate-related proposals, these also go much beyond minor adjustments and mark a fundamental and even a dramatic departure from the current practices.

With effect from 1 July 2000, all statutory records in excise would be dispensed with. Excise department would rely upon the manufacturer's records. This completes the process initiated by me in my last Budget in this regard.

From 1 April 2000, excise assessees would be allowed to pay the excise dues in fortnightly instalments. With this proposal, I am putting an end to the age-old practice of day-to-day payment system of excise duties. For the small scale sector, the monthly payment scheme, that I had introduced last year, would continue.

Next, I want to make the valuation mechanism simple, user-friendly and along commercially acceptable lines. From 1 July 2000, I propose to replace the existing section 4 of Central Excise Act which is based on the concept of "normal price" by a new section based on "transaction value" for assessment. This is a path breaking departure from the traditional approach.

The House is aware that several items are assessed to excise duty on the basis of Maximum Retail Price. This system is largely free from disputes and has been generally welcomed by the industry. I propose to extend MRP based assessment to about two dozen new items. I also propose to extend this scheme to more items during the course of the year.

I also propose to rationalize the rates of duties applicable to medicines and toilet preparations under the Medicinal and Toilet Preparations (Excise Duties) Act. The MRP-based assessment provisions are also being extended for assessment under this Act. These measures would considerably simplify the collection of excise duty by the States and improve their revenues from these duties. These changes will come into force from a notified date.

In addition to the above, I am rationalizing the provisions relating to payment of interest and penalty on default. The details are contained in the Finance Bill.

This completes my package of restructuring and rationalisation on the excise side. Trade and Industry should now breathe easy.

I shall now deal with my proposals relating to customs duties.

I am conscious that in this area, I face serious constraints. We have to maintain a judicious balance between the need for providing adequate protection and growth impulses to the domestic industry and calibrating tariffs to international levels. We also need to carry the reform and rationalization process further.

Taking all factors into consideration, I propose to reduce the peak rate of basic customs duty from 40 per cent to 35 per cent, thereby reducing the total number of customs duty rates from 5 to 4, *i.e.* 35 per cent, 25 per cent, 15 per cent and 5 per cent.

The surcharge of 10 per cent, which I am constrained to continue on revenue considerations, will also apply to the new peak rate of 35 per cent. Crude oil and petroleum products, certain WTO bound items and gold and silver would continue to be exempt.

The House may recall that I had imposed a Special Additional Duty (SAD) of customs in my Budget proposals for 1998-99. This had made manufacturer-importers quite sad. But traders were glad because they were exempted. I am correcting the discrimination by withdrawing this exemption. Now all importers would pay this duty. SAD would, however, not apply to petroleum products.

Consequent to our international trade treaty obligations, several hundred items will be placed on the free list for imports effective from 1 April 2000. Most of these are consumer goods and a number of them are agricultural products. To accord adequate tariff protection for these items, they are being placed at the peak rate (35 per cent plus surcharge), except for a few items like capital goods. A number of agricultural and horticultural products placed on the free list of import in earlier years are also being brought to the peak rate to ensure adequate protection to our farmers.

Furthermore, for a handful of sensitive agricultural products (wheat, rice, sugar and edible oils), in which our experience with supply management has underlined the importance of occasional tariff adjustments. I am making suitable enabling provisions to fix the statutory tariff rates at appropriately high levels. This will give the necessary flexibility for adjusting the applied rates.

Customs is not all about raising revenues. It is also a powerful tool for building our industrial capabilities and improving our international competitiveness. I propose to take several measures in this regard, picking up three sectors for special attention. These are integral parts of the "convergence revolution" which is fast becoming a reality.

First, and foremost, the Information Technology (IT) sector, which leads the current excitement. I propose to reduce the customs duty on several items for the IT sector. These include:

- Computers, from 20 per cent to 15 per cent;
- Mother boards, from 20 per cent to 15 per cent;
- Floppy diskettes, from 20 per cent to 15 per cent;
- Specified capital goods for manufacture of semi conductors and ICs, from 15 per cent to 5 per cent.

- Microprocessor for computers, from 5 per cent to Nil;
- Memory storage devices, from 5 per cent to Nil;
- CD-ROMs, from 5 per cent to Nil;
- Integrated circuits and micro assemblies from 5 per cent to Nil; and
- Data graphic display tubes for colour monitors for computers from 5 per cent to Nil.

Telecommunications is equally important. To become an economic superpower we must get connected, domestically and globally. I, therefore, propose to reduce the basic customs duty on specified raw materials for manufacture of optical fibres from 15 per cent to 5 per cent. I also propose to reduce the duty on cellular phones from 25 per cent to 5 per cent to improve their availability through proper channels and to curb the menace of the grey market, and on their battery packs from 40 per cent to 15 per cent. I am extending the concessional rate of 5 per cent basic duty applicable to specified telecom equipment to internet service providers also.

The third is the entertainment industry, which is also an area of great promise. To reduce the cost of cinematography for the film industry and provide access to the latest technology, I propose to reduce duty on cinematographic cameras, and other related equipment from 40 per cent to 25 per cent. I also propose to reduce the basic customs duty on colour positive films in jumbo rolls and colour negative films in rolls of certain sizes from 15 per cent to 5 per cent. They shall also be exempt from CVD.

I would like to cover one more sector in this context.

India can be a world leader in jewellery exports, as it is for gems. I propose to reduce the basic customs duty on platinum and non-industrial diamonds from 40 per cent to 15 per cent in order to encourage production of quality jewellery and to provide a fillip to jewellery exports.

To give effect to our agreements with the European Union and the United States, I propose to adjust the customs duties on fibres, yarns, textile fabrics and garments. As a result, several varieties of fabrics and garments would henceforth be subjected to the higher of *ad-valorem* or specific rates of duties prescribed for them.

As far as petroleum sector is concerned, the international prices of crude oil and petroleum products prevalent over some time now have been putting considerable strain on our refineries and distorting the oil pool account. This is accentuated by the fact that prices of petroleum products have not been fully decontrolled so far. I, therefore, propose to reduce the basic customs duty on crude oil from 20 per cent to 15 per cent and on petroleum products from 30 per cent to 25 per cent, except on kerosene for parallel marketing, the basic duty on which is being raised to 35 per cent, from 30 per cent.

In several cases the bound rates are to be reduced as part of our international commitment. I do not wish to take the time of the House by going into details. But they do have some revenue implications.

Mr. Speaker, Sir, last year, I had proposed the abolition of Finance Minister's discretionery power to grant *ad hoc* exemptions of customs and excise duties except for goods of strategic nature, or for charitable purposes. I am pleased to inform the House that this self-denying rule has helped the Government save about Rs. 500 crore this year.

I shall now mention a few small, but significant measures for procedural improvements and redressal of the problems of taxpayers. To curtail the so-called "show cause notice *Raj*" in Customs and Central Excise, I have decided that henceforth, show cause notices involving duty amount of more than Rs. 1 crore would be issued only with the approval of the Chief Commissioner of Customs and Central Excise. Other show cause notices would require approval of the Commissioner of Customs and Central Excise.

It cannot be disputed that the tax due from a defaulter should flow to the exchequer at the earliest in public interest. At present, penalty equal to 100 per cent of the duty evaded is payable, and this is mandatory, even if someone makes the payment immediately after the adjudication order is passed. With a view to encouraging payment of tax due, I have now proposed that if the amount of tax evaded is paid along with interest within 30 days of the communication of the order, a penalty equal to only 25 per cent of the duty evaded would be payable. I hope this carrot will be found preferable to the stick, which is bound to follow if tax is not paid in time.

Service tax is emerging as an area of promise as well as problems. Many experts advise me that the best way to deal with this tax is to make it applicable to all services in one go. However, some others have suggested basic changes in the very structure of the service tax. I have decided not to make any changes for the present. I am setting up an Expert Group to go into all aspects of the matter, review the experience so far, and give me its considered advice.

My proposals on the excise side are estimated to result in revenue gain of Rs. 3,252 crore in a year. On the customs side, my proposals are estimated to result in a revenue loss of Rs. 1,428 crore.

Copies of the notifications issued to give effect to the changes in excise and customs duties shall be laid on the Table of the House in due course.

I now turn to my Direct Tax proposals.

Mr. Speaker, Sir, my edifice of Direct Tax proposals rests on four pillars of stability, economic growth, rationalisation and simplification.

Our existing rates of personal taxation at 10 per cent, 20 per cent and 30 per cent are only three in number and quite moderate. Although the basic exemption limit is Rs. 50,000, the real exemption limit goes much higher when the other exemptions and deductions are taken into account. For example, salaried persons start paying tax only on crossing Rs. 75,000 per year because of the standard deduction. If the tax rebates and deductions available for savings are taken into account, the effective limit of exemption gets close to Rs. 1 lakh. Thus I feel that the present rates of taxation as well as the exemption limit are reasonable. I, therefore, propose to maintain them at the same levels.

Although the 10 per cent surcharge imposed last year was meant to be temporary, I am constrained to continue with it, in view of the heavy and unexpected expenditure burden, mainly on account of defence requirements and transfer to States mandated by the Finance Commission.

Having restrained myself from imposing any additional taxes during the course of the year when there was much talk of a Kargil tax, I now propose increasing the surcharge moderately from 10 per cent to 15 per cent on non-corporate taxpayers having total taxable income above Rs. 1,50,000 per year. This will slightly increase their marginal rate from 33 per cent to 34.5 per cent. I trust that these relatively better-off sections of society would bear this additional burden cheerfully.

Lest it is felt that I am being discriminatory in not increasing the surcharge on corporates, let me clarify that they would also get their opportunity to contribute to the national effort in other ways a little later.

Despite the financial constraints, I would like to propose some positive measures on personal taxation.

As an expression of our gratitude to the contribution made by senior citizens during their active years and taking into account the possible hardships that they face in the advanced years of their life, I propose to raise the tax rebate available to them from Rs. 10,000 to Rs. 15,000. At the marginal tax rate of 30 per cent, this translates into an exemption of an additional Rs. 15,000 from their gross income, or substitutes the need to save an additional Rs. 25,000 to avail of a similar exemption under section 88.

I have always maintained that despite all challenges, my job as Finance Minister in making a budget is easier than that of an average house-wife struggling to balance the family budget. As a token of appreciation and recognition of women as productive contributors to the economy, I propose an additional rebate of Rs. 5,000 for women tax-payers from their tax liability. This would be subject to the overall ceiling of Rs. 15,000 if they also happen to be senior citizens.

With a view to acknowledging the services rendered by the members of defence forces and in token of our gratitude for their exceptional courage and valour, I had provided exemption from tax for the pension and family pension of gallantry award winners of these services. I now propose to extend similar benefits to gallantry award winners of para military forces and other forces engaged in national and civil defence.

I now turn to the role of taxation as a facilitator of economic growth. Knowledge-based industries are fast emerging as the front-runners of the Indian economy. To accelerate their growth, and encourage investment in them as mentioned in Part A of my speech, I propose to introduce a new regime for venture capital funds. The highlights of this would be:

(i) No approval of Venture Capital Funds by tax authorities would be required.

(ii) The principle of "pass through" would be applied in tax treatment of Venture Capital Funds, whose income would be free of tax, except when not distributed within the period that may be prescribed in the guidelines of SEBI. Income in the hands of its investors, which would otherwise be taxable, would also be kept tax free, and there would only be a one-time payment by tax by the Venture Capital Fund at the rate of 20 per cent, when the Fund distributes its income to the investors. The same rate would apply to undistributed incomes also.

I hope these incentives will facilitate the coming together of *Saraswati* (*i.e.* knowledge) and *Laxmi* (*i.e.* wealth) to bless entrepreneurs and investors.

Various tax benefits are already available for the infrastructure sector. I propose to extend these benefits to two additional and essential sectors of urban infrastructure, *viz.* water treatment and solid waste management. I also propose to include investments in public companies providing long term finance for urban infrastructure as approved investments for charitable trusts. This will enable more investment in projects for development of urban infrastructure.

To provide a more focussed incentive for infrastructure development, I propose to delete the existing provisions 54EA and 54EB and replace them with a new provision, whereby tax exemption from capital gains would be available only if investment is made in bonds to be issued by National Bank for Agriculture and Rural Development (NABARD) and the National Highways Authority of India (NHAI). These bonds will have a lock-in period of five years and their proceeds will be used for providing finance to the agricultural sector and for the National Highway Development Project (NHDP).

I propose to continue the thrust given to the housing sector last year and extend the benefits already available for two more years, *i.e.* for houses or projects which are completed by 31 March 2003. I hope this will sustain and accelerate house construction activity.

To supplement the package of incentives of this sector, I also propose that the 20 per cent rebate of tax under section 88 of the Income tax Act would now be available for repayment of housing loans up to Rs. 20,000 per year as against Rs. 10,000 earlier.

Presently, the exemption from tax on long-term capital gains is not available if the capital gain from transfer of capital assets is invested in a house, if one house is already owned. I am removing this restriction. Even if they own one house, taxpayers can make an investment in a new house and claim exemption from capital gains tax on sale of capital assets.

Last year I had provided for 100 per cent exemption on export profits to the entertainment industry. However, this benefit was limited to corporate entities only. I propose to extend the benefits available to corporates to non-corporate assessees as well with effect from Financial Year 1999-2000. This will remove the perceived discrimination to the non-corporate film makers, but I do hope that this industry will move towards corporatisation and modernization rapidly which is possible without in any way curbing individual creativity.

To address a long-standing demand of the entertainment industry and with a view to streamlining the procedures, I also propose to increase the limit of reporting of payments made by a film producer, during production of a film, to the tax authorities to Rs. 50,000 from the present level of Rs. 25,000.

I hope these concessions combined with what I have already done on the indirect tax side, will reassure the entertainment industry that "*Hum Saath Saath Hain*".

Shipping provides the transportation sinews to our international trade, and has a strategic relevance also. To enable the Indian Shipping Industry, which is facing serious challenges, to generate resources for strengthening and modernising its fleet, I propose to allow deduction of their entire profits, against 50 per cent as at present, if these are kept in a reserve to be used for purchase of new ships. This 100 per cent deduction would be available for five years beginning from the next year.

Investment in human resources is an essential precursor for sustainable economic development. To enable meritorious students, especially those from not so affluent backgrounds, to avail of opportunities for higher education, I propose to increase the maximum amount of repayment of loan for higher education from Rs. 25,000 to Rs. 40,000 as an allowable deduction. This would translate into loan amounts exceeding Rs. 3 lakh which would help such students to defray the increasing cost of higher education, especially in management and professional courses.

Availability of vocational training can go a long way in mitigating the problem of unemployment. It can also bridge the paradoxical mismatch between wide spread unemployment on the one hand and a shortage of properly trained manpower on the other. In order to remedy the situation I propose to allow 100 per cent deduction of payments made for the establishment and running of institutions for vocational education and training by the private sector in rural areas and small towns.

Barring some significant but scattered achievements, we are not a major force in the international sports arena. Like many other activities, modern sports and athletics need money and infrastructure for their development. While some sports have access to abundant funding, most others suffer for want of adequate support. To rectify this situation, I propose that 100 per cent deduction would be available for donations made by corporate entities to the Indian Olympic Association (IOC) for the development of infrastructure and for the sponsorship of games and sports. I hope that with this concession, IOC would be better equipped to promote sports in the country.

Last year, my proposals on corporate restructuring were widely welcomed by Indian industry. However, there have been persistent demands to clarify and rationalise some of the provisions. I, therefore, propose to remove ambiguities in this regard by making suitable changes in the provisions of the Income-tax Act. I also propose that resulting companies as a consequence of splitting of statutory bodies like SEBs will enjoy the benefits of demerger if they fulfil the conditions notified by the Central Government.

Last year, I had dispensed with the condition of continuity of the same business for carry forward and set off of loss. I propose to liberalise the provisions relating to carry forward and set off of unabsorbed depreciation on the same lines. The condition of continuity of same business will be dispensed with and unabsorbed depreciation may be carried forward and set-off even if the same business is not continued. To give greater restructuring flexibility and freedom to the corporates, including PSUs, I propose to make the conditions for tax exemption of voluntary retirement benefits of employees more liberal and to simplify the procedure for tax exemption of benefits given to employees of Public Companies and Co-operative societies. It will not be necessary any longer to obtain the approval of the tax authorities for their voluntary retirement schemes if these are formulated in accordance with the prescribed guidelines.

The various exemptions currently available while calculating Minimum Alternate Tax (MAT) and the credit system has undermined the efficacy of the existing provision and has also led to legal complications. To address these issues, I propose that the Minimum Alternate Tax be now levied at the revised rate of 7.5 per cent of the “book profits” as determined under the companies Act instead of the existing effective rate of 10.5 per cent. However, this will now be uniformly applied—barring one exception that I will mention later. There will also be no credit for Minimum Alternate Tax paid. This should bring all zero tax companies within the tax net which is also the basic purpose of this tax. The new system has the virtue of a lowered rate of tax, a simple method of computation, and an equitable spread.

To promote industrialization in less developed areas, I propose to extend the tax holiday available for new units set up in industrially backward States and industrially backward Districts for another two years. Similarly, I also propose to extend the existing tax benefit for new Small Scale industrial units for another two years, *i.e.,* till 31 March 2002.

To strengthen our capital market, I propose to provide 100 per cent exemption to the income of Investor Protection Funds of Stock Exchanges to give them incentives for setting up of such funds.

At present, no tax is payable in the hands of shareholders on the dividend income received from a domestic company, only the company pays additional income-tax at the rate of 10 per cent on the amount of dividends distributed by them. The large gap in the tax treatment of dividend income and interest income has been widely criticized. To reduce this anomaly, I propose to increase the rate of tax on dividends distributed by domestic companies from 10 per cent to 20 per cent. I would clarify that dividend income in the hands of share holders will continue to remain tax free.

In a similar vein, to reduce the distortions arising out of the differing tax treatment for interest incomes from mutual funds and other instruments, like bank deposits and corporate deposits, I propose to increase the rate of tax on income distributed by debt oriented Mutual Funds and UTI from 10 per cent to 20 per cent. However, I would like to clarify that the income distributed under the US-64 and other open-ended equity oriented schemes of UTI and Mutual Funds will continue to be exempt from this tax, as at present.

Currently, banks and financial institutions pay an interest tax of 2 per cent which adds to their cost. To remove this impediment to financial transactions, I propose to abolish this tax. This is a significant measure which will benefit the financial sector, and consequently the depositors and users of the products and services of the banks and financial institutions.

The life insurance sector is now opened up and would no longer remain a public sector monopoly. It is currently taxed at a special rate which is likely to need a revision in the altered scenario. I would like to undertake such revision on the basis of expert advice and in the light of international practice. I propose to constitute an Expert Committee for this purpose and I hope to bring necessary amendments based on its recommendations during the course of the year.

One of the major initiatives towards better tax compliance has been the introduction of the one-by-six scheme. This, along with other measures, has contributed substantially to increasing the number of tax-payers, which had languished at the level of just over a crore till 1996-1997, but has now crossed the two crore mark, with the biggest boost coming over the last two years. The momentum generated by this and other measures to widen the tax base needs to be sustained. I, therefore, propose to extend the one-by-six scheme from the existing 54 cities to an additional 79 cities in the country. With this, all the cities having a population of two lakh and more on the basis of the 1991 Census would stand covered.

In keeping with international practice, it is proposed to promote a common Business Identification Number to be used by different agencies and departments. In our context, the Permanent Account Number of income-tax would be that instrument. To begin with, the Central Board of Excise and Customs (CBEC) and Directorate General of Foreign Trade (DGFT) will use PAN for their assessees, importers and exporters.

I hope that in near future, the PAN card will replace the ration card as the primary identification document for a sizeable number of people.

With a view to intensifying the drive for PAN allotment, I propose to open special counters in all cities where the one-by-six scheme will be in operation (including 79 cities where the scheme is being extended) to issue PAN cards to the taxpayers within 30 days of their filing the application. This facility will become operational with effect from 1 July 2000.

A large number of farmhouses have come up in the vicinity of metropolitan and big cities. Many of these generate commercial income from being hired out for residential accommodation and for holding functions and events. No tax is paid on this income, which is mis-declared as agricultural. This blatant and visible misuse of an exemption originally intended only for genuine farmers cannot be condoned or allowed to continue. I, therefore, propose to make suitable changes in the law to ensure that the income from farmhouse from anything other than genuine agricultural operations will be brought in the tax net.

It is my earnest desire to make the system of tax collection as user friendly and efficient as possible. The tax payer should be able to pay taxes with speed, convenience and dignity. With this in view, I propose to expand and revamp the presently available facilities of tax collection to provide that taxpayers would be able to pay their tax in any branch of nationalised banks where they maintain an account. This facility would be available in all towns and cities covered under the one-by-six scheme with effect from 1 August 2000. For operational reasons, this facility would initially be offered in computerised branches only, but would be expanded continuously.

I also propose to further streamline the system of refunds. While the present practice of sending the refund cheques to the tax payers under advice to their banks would continue, the Tax Department would also offer the facility of issuing refunds directly on the bank accounts of assessees if the tax payers so desire. For operational reasons, this facility would also initially be started from computerised branches of banks, with continuous expansion as the banks get progressively computerised.

With almost every sector of the economy expecting a special treatment, our Income-tax Act has become a vast compilation of exemptions. Income is income and should be taxed. There should be no permanent exemptions. With this in view, I want to make a beginning towards rationalising the existing system of concessions and exemptions. Export earnings of various kinds presently enjoy exemptions from income-tax ranging from 50 per cent to 100 per cent of income. I have, therefore, decided to phase out these concessions over a period of five years.

To begin with, I am withdrawing these concessions by 20 per cent from the financial year 2000-2001, and by 20 per cent each subsequent year till they reach a zero level. I would add that exporters would continue to enjoy exemption from Minimum Alternate Tax (MAT) till the full phase out. The revenues garnered from this rationalization measure will help to finance universalization of primary education and other investments in human resources.

My rationalisation measures also include the following:

- Trusts running educational institutions and hospitals will not be denied exemption even if their trustees avail medical and educational facilities from them. Such benefit alone will be taxed.
- Investments made by trusts in public sector companies will continue to be eligible investments for a certain period, even after they cease to be PSUs following disinvestment.
- Interest for delayed payment of dividend tax and tax on distributed profits by mutual funds and UTI will be reduced from 2 per cent per month to 1.5 per cent per month.
- Exemption of allowances received by employees will be raised in conformity with the recommendations of the Fifth Pay Commission.
- Limit of gross receipts for compulsory maintenance of books by professionals will be enhanced from Rs. 60,000 to Rs. 1,50,000.
- Advisory limit for disposal of departmental appeals by Appellate Tribunal will be provided for in law.

To sum up, Mr. Speaker, Sir, as a result of various proposals made in this budget on the direct taxes, the estimated revenue in 2000-2001 would be Rs. 72,105 crore, including the component of additional resource mobilisation of Rs. 5,080 crore.

Mr. Speaker, Sir, with these proposals I estimate total tax revenue receipts for the Centre at Rs. 1,46,209 crore and the fiscal deficit at Rs. 1,11,275 crore or 5.1 per cent of GDP. I could have sought a deeper cut in the fiscal deficit, but a substantially higher level of revenue mobilization would have hurt the industrial recovery under way at present. Thus, in the short-run, I had to carefully balance the need for fiscal consolidation with the need to nurture the recovery phase of a growth cycle. I hope this august House will support the balance I have struck in this budget.

Growth is not just an end in itself. It is the critical vehicle for increasing employment and raising the living standards of our people, especially of the poorest. Sustained, broad-based growth, combined with all our programmes for accelerating rural development, building roads, promoting housing, boosting knowledge-based industries and enhancing the quality of human resources, will impart a strong impetus to employment expansion. There can be no better cure for the problem of poverty than this in our country.

Sir, the millennium has heralded the arrival of the Indian economy on the global stage. In two short years, we have shown that Indian talent and Indian effort is second to none. In two short years we have ensured that “made in India” is a compliment for any product or service. In two short years we have sent notice to the world that India will be an economic super power in the 21st century. The world’s eyes are now upon us, and we will deliver.

Mr. Speaker, Sir, with these words, I commend the budget to this august House.