SPEECH OF SHRI JASWANT SINGH, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 2003-2004*

Highlights

- *Expansion of Antyodaya Anna Yojana*
- *Designing a Community-Based Universal Health Insurance Scheme*
- *Launching of Varishtha Pension Bima Yojana*
- *Promoting Health of Live-stock*
- *Maru Gochar Yojana proposed*
- *Incentives to Tourism Industry*
- *Raising limit of Foreign Direct Investment (FDI) in the Banking Sector*
- *Introducing VAT at State Level*
- *Introducing National Calamity Contingency Duty*

Mr. Speaker,

I am greatly honoured to present the sixth successive budget of the Government of the National Democratic Alliance (NDA), under the premiership of Shri Atal Bihari Vajpayee.

I wish to place on record high appreciation of my distinguished predecessor, Shri Yashwant Sinha, who so ably steered the country's finances in the earlier budgetary exercises. That has made my task so much easier today.

THE CHALLENGE AND THE RESPONSE

At the core of our economic endeavour and management of the country's finances are the interests of our citizens; all this effort is for their total well-being. That is our central objective, towards which the

* *Lok Sabha Debate*, 28.2.2003, cc. 1-51.

NDA Government has a non-negotiable commitment. Through budget 2003-04, the Government, therefore, addresses the following five objectives, as '*Panch Priorities*', for our citizens and for the economic security of our country, though these are not listed in hierarchical order of importance:

(a) poverty eradication; addressing the 'life time concerns' of our citizens, covering health, housing, education and employment;

(b) infrastructure development;

(c) fiscal consolidation through tax reforms and progressive elimination of budgetary drags, including reform of the additional excise duty, introduction of service tax and introduction of Value Added Tax (VAT) from 1 April 2003 at the State level;

(d) agriculture and related aspects including irrigation; and

(e) enhancing manufacturing sector efficiency, including promotion of exports and further acceleration of the reform process.

Permit me to share the conceptual underpinning of these '*panch priorities*'. Let us, to start with readily acknowledge that the essential entrepreneurial character and the creative genius of our citizens is our greatest asset. This energy has to be released. For that, and for converting the liability of want into the asset of ability, eradication of poverty is crucial; that is the moral and economic issue of our times. Too often it is observed that budgetary exercises float over the wide mass of India, relating only to a few. This is not so here. And that is why a closely interrelated concern is renewed progress on the front of agriculture; our nation's life blood. A second revolution, to follow the earlier Green Revolution is the vital need of today.

But neither in agriculture, nor in industry, shall we be able to attain our objective, if infrastructure, both physical and social, is not rapidly and efficiently developed. For this, private and public interest must combine so as to generate maximum social welfare. Upon these foundations, and through encouraging specific manufacturing sectors, particularly activities where knowledge is industry, we will enhance growth, improve incomes, generate employment and promote exports. For our growth to be sustained, fiscal consolidation is the basis; it is the central pillar. Government has to totally eliminate budgetary drags, and be rid of the self-laid traps; they retard both the pace and the robustness of our growth. What is needed is a continuous and self-reliant progression of accelerating, all round growth, with a wider distributive spread of national wealth and greater spending power in the hands of all our citizens. We have to recognise the need to address a reduction of not just our social but

economic inequalities, too. This cannot be postponed. That is why reforms are so critical. And, our reform agenda must not be held hostage; either to yesterday's debates, or to subjective and selective interpretations of it. This is a collective need, for the nation's growth, which all of us have to address together.

Mr. Speaker, there is palpable impatience in the country for progress and growth. The nation can not afford the luxury of prolonged periods of reflection, or a leisurely implementation schedule. The world will otherwise pass us by. Beyond deregulation, it is more and ever more de-bureaucratisation that is needed, as much of systems as of the mind. Of course, institutions matter, correct design and application of rules, too, but all in the service of our national objectives; not either as obtuse abstractions or as partisan goals. The core need in the country is of releasing national creativity. The Budget 2003-2004, of the NDA Government endeavours to do just that. This is our economic and social compact.

THE BACKDROP

I want to now briefly share with Hon'ble Members the backdrop in which we address our responsibilities.

Geo-politics

The circumstances in which we meet are defined by the current global uncertainties; their vortex lies over the Gulf and Iraq is at the very core of it, even as the Israel-Palestine conflict smoulders. Vast naval armadas crowd the waters of the North Arabian Sea, and land and air forces prepare for battle. Nearer, our neighbour Afghanistan, torn by decades' old violence, continues to struggle with post-Taliban tremors. In North-East Asia, old animosities are flared to near criticality through irresponsible external assistance. And, our immediate western neighbour, riven internally by multiple fault lines, spews venomous terrorism from the cauldron of its compulsive hostility for India.

Macroeconomic Circumstances

Despite all this, and despite the present volatility in international oil prices, alongside a continuing sluggishness in global recovery, uncertain markets, a 9-month long military stand-off on our borders; the simultaneous challenge of combating externally aided and abetted terrorism; and the worst drought that we have faced in three decades; objectively, the country's macroeconomic circumstances have never been better for attaining our developmental objectives of enhanced and sustainable growth,

poverty eradication, employment generation and improving the quality of life.

Economic Performance 2002-03

Sir, the overall economic performance in 2002-03 has been reported in detail in the Economic Survey. I do not wish to repeat all that except to highlight that despite the agricultural GDP decline of an estimated 3.1 per cent, caused entirely by a large decline in crop output, the country registered a real growth of 4.4 per cent in GDP, net of inflation. Growth rates of industry (6.1 per cent) and services (7.1 per cent) accelerated very encouragingly, as did exports by a healthy 20.4 per cent.

From 1956 onward, continuously, we have endured serious foreign exchange constraints. Not any longer. After a gap of 24 years, our current account turned into a surplus in 2001-02, and continued to be in surplus during the first two quarters of the current year. Our reserves' build up during the last year has been the highest ever in a single year, with reserves crossing $75.5 billion the third week of February. In early-February, the Government decided to prepay $3 billion of its external loans. India is now an exporter of grain to 15 countries and donor of hard currency aid to a dozen, alongwith rupee aid to another dozen countries. The rupee, with foreign assets to currency ratio of 124.8 per cent, is stable. Gross domestic savings, as a proportion of GDP at market prices, have also improved and stand at around 24 per cent. In the course of the last four years, our interest rates on Government securities, have rapidly gone down from 12 to around 7 per cent, thus setting the stage for growth of investment.

The Tenth Five Year Plan

The National Development Council, in December 2002, approved the Tenth Five Year Plan, with a bold and ambitious target of 8 per cent annual growth on the average. One of the crucial aims of the Tenth Plan is to promote a balanced and equitable regional development and to advance the necessary policy and administrative reforms at the State level. The allocation for 2003-04 includes several additional initiatives such as promoting infrastructure by leveraging public money through private sector partnership, provision of 2 lakh hand-pumps in water scarcity areas and schools, rejuvenation of 1 lakh traditional water sources in villages, Research and Development (R&D) support in pharmaceuticals, wind and solar energy, among others.

Permit me, Sir, to now address the '*Panch Priorities*'.

ANTYODAYA AND LIFE-TIME CONCERNS

Antyodaya Anna Yojana

For eliminating poverty, it is only reforms that result in sustained growth and high employment that are the durable solution. However, given our comfortable food stock, there is both scope and a need for a direct attack, too.

Mr. Speaker, Sir, I am sure you agree that the disadvantaged must always be the first charge on our exchequer. This is our belief, it is our creed; this is also at the heart of 'integral humanism'. Therefore, it has been decided, and I want this to be the first announcement that is made, that the *Antyodaya Anna Yojana* will be expanded from 1 April 2003, to cover an additional 50 lakh families raising the total coverage to more than a quarter of all BPL families during the year 2003-04. The additional budgetary expenditure on this account will be Rs. 507 crore.

Sir, may I, in humility, say that this does cover the first part of my assurance: "*Garib ke pet me dana*, ..."

Rural development, rural industries and artisans and poverty alleviation in urban areas are addressed severally through various schemes in different ministries. A need has, therefore, been felt for sometime that all these schemes, of the same genre, be rationalised. To do that, a Committee headed by the Deputy Chairman, Planning Commission, is proposed. It will examine all schemes having a bearing on poverty alleviation and rural development and recommend their practical convergence.

Life-time concerns

The Prime Minister had on Independence Day, 2002, announced the Government's commitment to improving national well-being by addressing the 'life-time concerns' of our citizens, a noble and holistic objective.

Housing

Of these, I take housing first. It is a basic necessity. While promoting the all important employment-generating activity of construction, it also stimulates demand for core industries like steel and cement. To maintain its present momentum of growth, it is proposed that interest deductible under income tax up to Rs. 1,50,000, for construction or purchase of a self-occupied house property, be continued. In addition, it is proposed that income from housing projects for construction of residential units, of

prescribed specification, approved by the local authorities up to 31 March 2005, will now be exempt from income tax. Thus, not only has the limitation with regard to the year of sanction, earlier frozen at 31 March 2001, now been extended, but the benefits of the scheme also made available irrespective of the year of completion. The Finance Ministry is further examining what additional incentives can be given to basic infrastructural developments that must accompany slum upgradation, sewerage system laying and green-field housing projects.

Education

Education is the central vein of our 'life-time concerns'. Therefore, at the level of the citizen taxpayers, as a first step education expenses up to Rs. 12,000 per child for two children, will be made eligible for rebate under Section 88 of the Income Tax Act.

India is a highly creative, knowledge-based society; but authorship of books has never been sufficiently rewarded, certainly not monetarily, Therefore, royalty income up to Rs. 3 lakh per annum, received by authors of literary, artistic and scientific books shall henceforth be fully exempt; as will be royalty received by individuals from exploitation of patents. This is in addition to the other existing exemption benefits.

I declare, Mr. Speaker, a possible, personal benefit here as an author of some books, with variable but always modest royalty income. There, however, is no conflict of interest, Sir, because this measure has not been announced with any personal benefit in mind.

Games and sports

Games and sports are a necessity, as much for recreation as for developing sound bodies and minds. They must be encouraged. But, for a nation of a billion plus, sports facilities available to our young are woefully inadequate. Therefore, development of sports infrastructure will now be supported through direct funding of public-private joint initiatives. Guidelines in this regard will be issued shortly.

Health

With three principle objectives in mind: to contribute to enhanced national health; to promote India as a global health destination; and to enable easier access to health facilities to our disadvantaged citizens, a number of additional measures are now proposed.

In order to encourage private hospitals to either establish new or to expand existing medical facilities, it is proposed to extend the benefit of Section 10 (23G) of IT Act to such financial institutions as to provide long-term capital to private hospitals with 100 beds or more.

In view of the rapid strides made in R&D in medical equipment, there is recognisable need to frequently upgrade and replace the existing equipment with the more 'state-of-the-art'. It is therefore, proposed to increase the rate of depreciation from the present 25 per cent to 40 per cent in respect of life saving medical equipment.

To assist citizens with impaired vision, the basic customs and excise duties on rough ophthalmic blanks shall be reduced from 25 to 5 per cent, and from 16 to 8 per cent, respectively. To help people give up their addiction to tobacco and its products, excise duty on Nicotin Polacrilex gum shall be reduced from 16 to 8 per cent.

It is also proposed to reduce the customs duty on specified life saving equipment from 25 per cent to 5 per cent and also exempt them from CVD (additional duty of customs). In respect of life saving equipment already exempt from CVD, it is proposed to exempt them from excise duty as well, so as to encourage indigenous manufacturers.

A large number of life saving drugs are either exempt from customs duty or attract a nominal 5 per cent duty. It is proposed to extend the concessional duty rate of 5 per cent to some more drugs. Life saving drugs currently attracting nil or 5 per cent customs duty will also be exempt from excise duty. Basic customs duty on glucometers and glucometer strips used by diabetics, will be reduced from 10 per cent to 5 per cent; and they will be exempt from excise duty as well. Cyclosporine will be exempted from excise duty. This reduction of excise duty to nil, wherever imports are exempt from CVD, will certainly make our domestic industry more competitive, as also better enable them to face the new intellectual property right regime from 2005.

Health Insurance

For a large majority of our less advantaged citizens, easy access to good health services is just not there. In order to correct this and offer health protection, of some choice, the public sector general insurance companies have been encouraged to design a community-based universal health insurance scheme during 2003-04. Under this scheme, a premium equivalent to Re. 1 per day (or Rs. 365 per year) for an individual, Rs. 1.50 per day for a family of five, and Rs. 2 per day for a family of seven, will entitle eligibility to get reimbursement of medical expenses up to Rs. 30,000 towards hospitalisation, a cover for death due to accident for Rs. 25,000, and compensation due to loss of earning at the rate of Rs. 50 per day up to a maximum of 15 days. To make the scheme affordable to BPL families, the Government has decided to contribute Rs. 100 per year towards their annual premium. Full details will be publicized shortly.

I request Hon'ble Members to give this scheme the widest possible coverage in their constituencies. The benefits Sir, are real.

In the first phase, at least an additional 50 lakh BPL families will be covered during 2003-04.

Disabled and Handicapped

The Government is committed to providing equal opportunities, protection of rights and all-round development of persons with disabilities. A number of initiatives have already been taken in this regard.

Now, for income-tax purposes, it is proposed that the physically handicapped or persons with such dependents be entitled to a deduction for permanent physical disability of Rs. 50,000 and an enhanced deduction of Rs. 75,000 in case of severe disability.

I also propose to reduce the customs duty on hearing aids, crutches, wheel chairs, walking frames, tricycles, braillers and artificial limbs to 5 per cent without Special Additional Duty (SAD). They will be exempted CVD and the domestic manufacturers will also be exempted from excise duty. I also propose to reduce the customs duty on parts of hearing aids and wheel chairs to 5 per cent without CVD and SAD.

The Government will establish a college of rehabilitation sciences at Gwalior, and a national institute for empowerment of persons with multiple disabilities at Chennai.

The Salaried

A constant refrain of the salaried has been limited standard deduction for income tax purposes. It is asserted that as a group they consistently demonstrate the best tax compliance. I agree, they do. It is, therefore, proposed that the standard deduction for such employees be raised to 40 per cent of salary, or Rs. 30,000, whichever is less, for salary income up to Rs. 5 lakh; and allow a deduction of Rs. 20,000 for salary income above Rs. 5 lakh. It is also proposed that relief be provided to employees opting for Voluntary Retirement Scheme (VRS), by exempting VRS payments up to Rs. 5 lakh, even when taken in instalments.

The Government will restore the Leave Travel Concession (LTC) facility to its employees. Mr. Speaker, Sir, permit me to hope that the consequential additional outgo from the exchequer on this account, will atleast benefit some in our tourism industry.

Senior Citizens and Pensioners

India will shortly become home to the second largest number of elderly persons in the world. The population of our elderly, at present

estimated at 76 million, is expected to increase to 100 million in 2013. The interests of the pensioners and senior citizens are, therefore, a particular responsibility of the NDA Government.

To enable them to live their life of retirement in dignity, the tax rebate to senior citizens is proposed to be increased to Rs. 20,000. As a result, their income up to Rs. 1.53 lakh will henceforth become fully exempt from income tax. In the case of senior citizens on pension, the effective exemption limit may hereafter be actually higher and become Rs. 1.83 lakh, because of standard deduction. They can get further relief by taking advantage of the tax rebate available under Section 88. In addition, to reduce their cost of compliance, but of much greater importance to them—to reduce bureaucratic hassles—I propose to accept self-declarations filed by our senior citizens, in regard to no deduction of tax at source from interest income, income from units and such other sources.

Insurance Pension Scheme

Nevertheless, in the context of the declining rates of interest, I do take on board the difficulties that are often voiced and could be faced by our senior citizens and others. In order to provide relief to them, the Life Insurance Corporation of India (LIC) will launch a special pension policy, guaranteeing an annual return of 9 per cent, in the form of a monthly pension scheme.

This scheme will be called: *Varishtha Pension Bima Yojana,* through which a pensioner, or any citizen above 55 years of age, could on payment of a lump-sum amount get benefits calculated at 9 per cent per annum. For this scheme, and with pensions in mind, any citizen above the age of 55 years of age will qualify and will get a monthly return in the form of a pension for life. Upon demise, the initial amount deposited will be returned to the spouse/nominee under the policy. The minimum and maximum monthly pensions proposed are Rs. 250 and Rs. 2,000 per month. This monthly pension will start from the month following the payment of the lump-sum amount by the citizen. The difference between the actual yield earned by the LIC, on the funds invested under the scheme and the assured return of 9 per cent, will be reimbursed to the LIC annually, by the Government. Other details of this scheme will be announced shortly by the LIC.

Ex-servicemen: Our Veterans

For ex-servicemen, whose welfare is so close to my heart, I propose to grant income tax exemption to corporations set up under a Central or

State Act for their benefit. It is a matter of great personal satisfaction to me, that of the Prime Minister's scheme for establishing 227 Ex-Servicemen Medical (XSM) facilities in the country, the first will be inaugurated in April this year. The Ministry of Finance fully supports this scheme.

Restructured Pension Scheme

My predecessor in office had, in 2001, announced a road map for a restructured pension scheme for new Central Government employees and a scheme for the general public. This scheme is now ready. It will apply only to new entrants to Government service, except to the armed forces and upon finalisation, offer a basket of pension choices. It will also be available, on a voluntary basis, to all employers for their employees, as well as to the self-employed.

This new pension system, when introduced, will be based on defined contribution, shared equally in the case of Government employees between the Government and the employees. There will, of course, be no contribution from the Government in respect of individuals who are not Government employees. The new pension scheme will be portable, allowing transfer of the benefits in case of change of employment and will go into 'individual pension accounts' with Pension Funds. The Ministry of Finance will oversee and supervise the Pension Funds through a new and independent Pension Fund Regulatory and Development Authority.

PHYSICAL INFRASTRUCTURE

I now come to the second of the '*panch priorities*' — physical infrastructure. Demand generated by enhanced public investment in infrastructure has been a key stimulant underlying our current industrial recovery. In October 1998, the Prime Minister launched the National Highway Development Project (NHDP), one of the most ambitious highway projects in the world, providing strong backward linkages for our steel and cement industries. There is simply no alternative to providing quality roads, railroads, ports, airports, reliable and reasonably priced power supply, safe drinking water and sanitation. Without these India can not take full advantage of the opportunities now offered by technology and competition.

In developing infrastructure, there is need to encourage public-private partnership, so that public funds are leveraged and the quality of service delivery improved, thus yielding better value for money.

Accordingly, Budget 2003-04 undertakes to provide a major thrust to infrastructure, principally to roads, railways, airports and seaports, through

innovative funding mechanisms. This comprehensive initiative will cover the following:

— 48 new road projects at an estimated cost of around Rs. 40,000 crore; with a quarter of them being made of cement concrete;

— National Rail Vikas Yojana projects worth Rs. 8,000 crore;

— Renovation/modernisation of two airports and two seaports at an estimated cost of Rs. 11,000 crore; and

— establishing two global standard international convention centres at an estimated cost of Rs. 1,000 crore.

The total estimated cost of the above projects is about Rs. 60,000 crore. In addition, the North-South and East-West corridors will be funded through the additional levy of a cess of 50 paise per litre of diesel and motor spirit. This levy will contribute a further Rs. 2,600 crore for road development.

The essence of the new funding mechanism is to leverage public money through private sector partnership, wherever possible. The three critical components of the scheme are: release of public funds only when linked to specific and well-defined milestones in completion of the project, in physical terms; a sharing of the risks with the private promoters and financiers; and no open-ended Government guarantees at any stage.

Roads

These 48 projects, with a total length of over 10,000 kms., are over and above the NHDP. They have been identified where the traffic volume justifies four-laning. These projects will be funded on a build-operate-and-transfer (BOT) basis, with the Government providing a subsidy in the form of an annuity flow to meet only the shortfall between anticipated revenue and loan repayment liabilities. In the first year, 2003-04, at least 3,000 kms. of roads, or almost a third of the total of these 48 projects, will be taken up for four-laning.

National Rail Vikas Yojana

Ministry of Railways has established Special Purpose Vehicle (SPV) to take up projects worth Rs. 8,000 crore for the Golden Quadrilateral. Their projects will be funded through Rs. 3,000 crore worth of equity, provided by the Government and Rs. 5,000 crore worth of loans. This SPV will raise debt from the market. Repayment of debt will be done by earmarking Railway receipts over the period of amortisation. Further, safety upgradation programme on the Golden Quadrilateral will be taken up simultaneously under this mechanism.

Airports

In addition to the existing initiatives for leasing of major airports, as well as of setting up two private airports in Bangalore and Hyderabad, it has now been decided to take up the Delhi and Mumbai airports, as the principal hubs of international travel to India, for modernisation to international standards. Two separate companies will be formed with initial equal equity participation from the Airports Authority. These two companies could also take joint venture partners. On completion, the management will be leased out.

Seaports

It is proposed to facilitate the implementation of comprehensive modernisation projects for Jawaharlal Nehru Port Trust (JNPT), Navi Mumbai and Cochin Port, designed to bring them up to international standards. JNPT and Cochin ports need dredging and modernisation. These projects are expected to cost over Rs. 7,500 crore. The user charges levied by the two port authorities and the additional custom flowing in after dredging and modernisation is completed, are expected to cover the debt service obligations. Here, too, the "Government will provide only the viability gap funding to bridge any possible shortfall".

Convention Centres

To redress the lack of convention centres of international standards in the country, the Government will enable the establishment of two such centres through public-private partnership; with the Government covering the viability funding gaps only.

For the 48 road projects, National Rail Vikas Yojana, the two airports, the two sea-ports and the two convention centres, a sum of Rs. 2,000 crore is being provided as initial contribution from the Government. On a flow basis, the average annual commitment for all these projects, under the viability gap funding basis, is expected to be around Rs. 2,000 crore per annum in the medium-term, to be met annually from the budgets of the Railways and the Government.

Rural Roads

Encouraged by the success of the scheme of funding rural roads under the Pradhan Mantri Gram Sadak Yojana by earmarking 50 per cent of the cess on diesel, it is proposed that the resources for rural roads be augmented. Accordingly, apart from allocating the anticipated Rs. 2,325 crore from the existing cess on diesel for 2003-04, additional funds will be made available for rural roads from the proposed additional cess on diesel of 50 paise.

Power

As Hon'ble Members know, the Electricity Bill, 2001 was introduced in the Lok Sabha in August 2001 and subsequently referred to the Standing Committee on Energy for examination. The report of this committee has been received. This Bill seeks to provide a legal framework for our reforms and restructuring of the power sector, also in simplification of administrative aspects. We should take up this Bill now for early consideration.

Simultaneous to the emphasis on improvement in power distribution, our attention on capacity addition remains. The Government had earlier, in 1999, notified 18 power projects as mega projects, conferring upon them various duty and licensing benefits. The Government now proposes to liberalise the mega power project policy further by extending all these benefits to any power project that fulfils the conditions already prescribed for mega power projects.

Given the importance of transmission in the power sector, it is proposed to reduce customs duty on specific equipment for high voltage transmission projects from 25 per cent to 5 per cent.

To further research in solar energy, wind turbines and hydrogen fuel as alternatives to fossil fuels, the Government is especially allocating Rs. 20 crore to the Council for Scientific and Industrial Research, for launching incentive driven research in these three fields.

Drinking Water

Supply of safe drinking water is an essential component of infrastructure development. Orders have been issued to grant depreciation at the rate of 100 per cent on plant and machinery and buildings that house such plant and machinery, forming part of a water supply project or a water treatment system. Water supply projects are now totally exempt in regard to capital goods and machinery, both from customs and excise duties. In addition, pipes have been exempted from excise duty for bringing raw water from source to the treatment plant and for conveying treated water to the storage place. I do hope that this will provide further incentive to new water treatment and supply projects for augmenting the supply of safe drinking water in the country.

Fiscal Consolidation and Debt Restructuring

Mr. Speaker, Sir, I have already said that for our growth to be sustained fiscal consolidation is essential. The Government has nurtured macroeconomic stability—held inflation low and maintained a strong

balance of payments position — while promoting growth. It has done so not only in the face of an unprecedented drought, but also in a global economy where growth is 'tepid', uncertainty great and oil prices high. We have carefully balanced the need for fiscal consolidation with the need for a contra-cyclical policy stance. Simultaneously, as I said, Government is committed to totally eliminating budgetary drags, be rid of the self-laid traps; and go forward with fiscal consolidation through revenue enhancement under a modern tax administration and expenditure rationalisation.

Cash Management

Appropriate cash management is integral to expenditure management. There is, at present, no effective cash management in our system as cash is available to the Ministries up to the budget ceiling as soon as the Appropriation Bill is passed by Parliament. The Government, therefore, now proposes to initiate cash management, on a pilot basis, in some major spending ministries, releasing budgetary allocations in a time-sliced manner to permit convergence with available resources within the year. Monthly or quarterly cash limits, based on the actual requirements of the Ministries will be prescribed. This will avoid mis-matches between receipts and expenditure and avoid rush of expenditure and the associated possible waste of resources in the last quarter.

External Debt Prepayment

At the Central level, interest payments in 2002-03 are estimated at Rs. 115,663 crore, equivalent to 48.8 per cent of the Government's revenue receipts. The average interest rate on Government of India's outstanding debt has come down from 11 per cent in 1999-2000 to 9.4 per cent in 2001-02. But, Mr. Speaker, because of the legacy of high cost debt from the past, this reduction in the interest cost is not enough; it does not keep pace with the decline in the market rates of interest. The Government has, therefore, already started to act on three fronts.

First, taking advantage of our comfortable foreign exchange reserves and lower domestic interest rates, the Government has effected premature repayment of 'high-cost' currency pool loans of the World Bank and of the Asian Development Bank totalling around $3 billion. We intend to continue with this policy of prudently managing the external liabilities and of proactively liquidating relatively higher cost component of our external debt portfolio.

Domestic Debt of the Central Government

Second, a large proportion of the banks' holding of Central Government domestic debt, contracted under the high interest regime of the past, is

thinly traded. With the softening of interest rates, ordinarily, such loans should command a premium over their face value. In effect though, banks are often unable to encash this because of limited liquidity. The Government therefore, now proposes to offer a buy back of such loans—entirely on a voluntary basis—from banks that are in need of liquidity, or of encashing the premium for making provisions for their non-performing assets (NPAs) thereby improving their balance sheets, or otherwise. The premium to be offered will be set on a transparent basis. If the banks declare the premium received as business income, for income tax purposes, they will be allowed additional deduction to the extent such income is used for provisioning of their NPAs.

State Governments' Debt

Third, is the restructuring of State Governments' debt. Mr. Speaker, Sir, the XII Finance Commission will also be making an assessment of the debt position of the States and suggest such corrective measures as are necessary. Meanwhile, the Central Government and the State Governments have mutually agreed to introduce a debt-swap scheme. Out of the total stock of debt of Rs. 2,44,000 crore owed by the States to the Government of India, a little over Rs. 1,00,000 crore bear coupon rates in excess of 13 per cent per annum, a rate that is far in excess of the current market rates. In consequence the interest burden of the States now constitutes a major item of expenditure for them; leaving little for even routine purposes.

The debt swap scheme introduced by the Government of India will enable States to prepay high cost debt and substitute them by current, low-coupon-bearing small savings and Open Market Loans. Twenty-six of the twenty-eight States have consented to participate in the scheme from the current year itself, while the remaining two States will join from 2003-04.

Over a three-year period ending in 2004-05, all State loans to the Government of India bearing coupons in excess of 13 per cent will have been swapped. In consequence, the States will save, at the very minimum, an estimated Rs. 81,000 crore in interest and deferred loan repayments, over the residual maturity period of the loans. Furthermore, and equally importantly, this scheme will restrain the debt build-up in States through the small savings scheme.

Agriculture

Agriculture, the life-blood of our economy, after giving the country adequate food security, is now again at the cross roads, as it prepares

to diversify and move up the value chain. It also needs to respond robustly to second generation issues such as land degradation and water logging. Diversification, resonance with market-forces and a swift adoption of sunrise technologies are the other needs.

Mr. Speaker, Sir, India has the largest irrigated, arable landmass in the world; our gross arable land being second only to the United States of America. We must acknowledge the vital import of these facts: they are both an unrecognized and an unused asset; it is our great reserve. We now need to give it full encouragement.

Diversification into Horticulture, Floriculture, etc.

Promising gains from remunerative agricultural diversification into horticulture, this significant contributor to both GDP, and food and nutritional security, will have to be sustained. With this in view, during the current year, it is proposed to introduce a new Central Sector Scheme on Hi-tech Horticulture and Precision Farming. Major components of the scheme will be use of hi-tech interventions like fertigation, use of biotechnological tools, green food production and hi-tech green houses. Deployment of precision farming technology aimed at judicious utilisation of resources like land, water, sunlight as well as time, including demonstration of these technologies will also be part of the scheme. I propose to provide, initially, a sum of Rs. 50 crore under this scheme.

Sugar

The state of the sugar industry is a matter of serious concern for the Government. There is accumulation of stocks in factories, simultaneously with growing arrears of payment for cane supplied by farmers, partly in consequence of soft market conditions. This has both economic and social consequences. In order to provide relief to both the farmers and industry, the Reserve Bank of India has already issued instructions to Cooperative Banks for the conversion of shortfall in margins into medium-term working capital loans, subject of course, to their furnishing adequate security or State Government guarantees. The Reserve Bank of India has also issued instructions to extend the repayment period of medium-term loans to 9 years. In addition, the Ministry of Food and the Ministry of Finance will jointly address the problems of the sugar industry and propose a comprehensive scheme for this important agro-industry soon.

Plantations

Our plantation sector, a hundred and fifty year old agro-industry, is passing through a rough patch, because of price instability in international

markets. The Government has already introduced a series of measures to provide relief to small and marginal farmers of plantation crops like tea, coffee and rubber, and help these sectors negotiate the difficult period.

With a view to providing stability in terms of income for the small growers, from 2003-04 onwards, Government has announced a Price Stabilisation Fund of Rs. 500 crore for the benefit of tea, coffee and natural rubber growers. The Fund will become operational in 2003-04.

In addition, I propose to abolish the excise duty of Re. 1 per kg. on tea and replace it by a cess of Re. 1 per kg., for creating a separate fund for development, modernisation and rehabilitation of the tea plantation sector. This measure, Mr. Speaker, will not impose any additional burden on the tea industry, but it will redesign the duty to help the industry. Further, coffee plantations will henceforth be eligible for income tax deduction of sums deposited in a development account, as in the case of tea.

Animal Husbandry and Veterinary Medicine

India has the world's largest cattle wealth; it produces more milk than any other country in the world, it has the second largest number of goats and third largest number of sheep in the world. These are great assets. In addition, animal husbandry provides employment to about 20 million, directly and indirectly. But our live-stock quality has deteriorated. Therefore to promote the health of our live-stock and give a fillip to animal husbandry and dairying, I propose to reduce the basic customs duty on specified veterinary drugs from 15 per cent to 10 per cent. To promote marine food industry, I propose to reduce the customs duty on shrimp larvae feed from 15 per cent to 5 per cent and exempt it from CVD.

Credit Availability

Timely availability of adequate credit is of utmost importance for the development of the rural economy and agriculture. At present Regional Rural Banks, commercial banks and credit cooperatives, encouraged mainly by the Government, undertake this function. I am not satisfied with this arrangement. We can not have a system wherein credit for motor cars is on easier terms than for farm equipment or tractors. Therefore, subject to the Reserve Bank of India's prudential norms and approvals, private banks will hereafter be encouraged to open branches in rural areas, to service both farm and non-farm sectors there. I will also examine afresh this whole question of franchising agricultural credit, including through Post Offices.

The full benefits of the declining rates of interest have not percolated to critical sectors such as agriculture and small-scale industry. This has to be rectified. Therefore, in order to pass on the benefits of lower rates of interest to agriculture and the SSI sector, the State Bank of India has announced an interest rate band of 2 per cent above and below its Prime Lending Rate (PLR) for secured advances. The Indian Bank Association (IBA) is now advising all its member banks to adopt a similar interest rate band. This is a welcome move. Agriculture and SSI will hereafter have to pay no more than an extra 2 percentage points than the best bank customers.

The Self Help Group (SHG)—Bank Linkage Programme being propagated by NABARD, for the last ten years, has been recognized as the largest and fastest growing micro-finance programme in the world. Our expectations of providing bank credit to 1.25 lakh SHGs during the current year have been surpassed once again and by January 2003, bank credit of Rs. 598 crore has already been provided to about 25 lakh poor families through 1.50 lakh new SHGs. The programme has also set in motion the process of women empowerment. However, the spread of the programme across the country has been uneven and has largely remained confined to a few States. I urge all States to vigorously join in our endeavour to make the SHG-Bank Linkage Programme a widespread success.

Fertiliser Subsidy

Hon'ble Members no doubt appreciate that despite the grave uncertainties on the oil front, the Government has by and large absorbed the crude price rise. Now, in view of the likely increase in naptha and gas feed-stock, at least the fertilizer subsidy has to be contained. Therefore, the issue price of fertilizers will be raised by a modest amount of Rs. 12 for urea, and Rs. 10 for DAP and MOP, per 50 kg. bag. The price of complex fertilizers will also be suitably modified.

Water Management and Irrigation

Drip Irrigation

The recent drought again brings into sharp focus the need for conserving our water resources. A number of initiatives have already been taken to conserve land and water resources. States are also encouraged to promote drip and sprinkler irrigation through supply of equipment at subsidized rates. But these efforts have to be intensified. Therefore, a bipartisan Task Force, headed by the Chief Minister of Andhra Pradesh and with a Minister of Agriculture from another State, as one of the members, will be constituted to recommend measures needed

to be adopted firstly, to expand the coverage of such irrigation, thereafter to also suggest safeguards so that the intended benefits actually reach the target groups.

River-interlinking

Despite major developments in the water resource sector since Independence, the country has not really come out of the flood-drought-flood syndrome. This is principally on account of, among other reasons, three major factors: faulty water management practices, unbalanced development of irrigation sources in the country and a highly uneven distribution of water resources.

To expedite the proposal for inter-linking of rivers, the Prime Minister has appointed a Task Force, which will suggest modalities for arriving at a consensus amongst the States on transfer of water to deficit areas and for identifying the priority links which could be implemented early, as well as a mechanism for their clearance and funding. Adequate outlay is being provided to support this Task Force.

Desert Pasturage Development

A special programme, *Maru Gochar Yojana*, is proposed to be taken up for the desert districts of Rajasthan. This programme will provide for rehabilitation of traditional pastures '*Oran'* or '*Gauchar'* — by developing at least one large pasturage nursery in each of the identified districts, as a Central scheme, for restoration of traditional water courses and other measures so as to provide effective drought proofing. A Task Force will be established for working out modalities for its implementation. Rupees 100 crore will be provided for this purpose, over a period of three years, with only a quarter of the contribution coming from the State Government. Provision for 2003-04 for this purpose will be Rs. 50 crore.

Industry

As Hon'ble Members know, in the current year so far, industry has stimulated overall growth, despite a decline in agriculture. We must, therefore, consolidate these gains and build on the robust industrial growth demonstrated in the last few quarters.

Promoting Investment: Tax Treatment of Dividends and Capital Gains

For this, we need to promote investment in the industrial sector and improve the debt and equity markets. Mr. Speaker, I am also committed to bringing the small investors back to the equity markets by restoring their confidence.

Dividend Distribution Tax

From 1 April 2003, it is proposed that dividends be tax free in the hands of the shareholders. Correspondingly, there will be a 12.5 per cent dividend distribution tax on domestic companies. While mutual funds, including UTI-II, renamed UTI Mutual Fund, will also pay dividend distribution tax, it is proposed to exempt equity oriented schemes from the purview of the tax for one year. UTI-I, however, will be exempt from the dividend distribution tax.

Long-term Capital Gains Tax

In order to give a further fillip to the capital markets, it is now proposed to exempt all listed equities that are acquired on or after 1 March 2003, and sold after the lapse of a year, or more, from the incidence of capital gains tax. Long term capital gains tax will, therefore, not hereafter apply to such transactions. This proposal should facilitate investment in equities. I will, however, re-examine the effects of this exemption in the next Budget and the Scheme will be in force until then.

Stock Markets

My predecessor had already announced that stock exchanges will have a corporate structure. To enable this, necessary amendments to the Securities Control and Regulation Act will be proposed in the current session. With a view to enhancing investor confidence, it is necessary to separate the ownership of these stock exchanges from their management; resulting in demutualisation. In the process of corporatisation or demutualisation, it is possible that capital gains accrue. Therefore, as a one time measure, at the time of corporatisation or demutualisation of the stock exchanges, in accordance with a scheme approved by the SEBI, should gains arise, then the consequential transactions shall be fully exempt from capital gains tax.

Research and Development

Hon'ble members, as I have already said, knowledge is industry; and this is particularly so when our imperative is to be the best, in all aspects in general, but particularly in product design and quality. To encourage R&D, it is proposed to extend the tax holiday to R&D companies established up to 31 March 2004.

Textiles

In industry, textiles is the largest employment provider in the country. It also contributes substantially to our exports. The main thrust of my

proposals for the textile sector, therefore, is to have a moderate rate structure; to complete the CENVAT chain to promote compliance; to encourage modernisation; and, to eliminate evasion. Keeping these objectives in view, as a package of incentives, the following measures are proposed:

- reduce excise duty on polyester filament yarn from 32 per cent to 24 per cent;
- reduce excise duty on all spun and other filament yarns from 16 per cent to 12 per cent;
- retain the 8 per cent excise duty rate for pure cotton yarn only;
- reduce excise duty on all knitted cotton fabrics and garments from 12 per cent to 8 per cent;
- reduce excise duty on all woven fabrics and other knitted fabrics from 12 per cent to 10 per cent;
- reduce excise duty on garments from 12 per cent to 10 per cent;
- withdraw exemption for all knitted and unprocessed woven fabrics;
- remove the scheme of deemed credit so as to complete the CENVAT chain;
- retain exemption for hand processed fabrics but only if no power or steam is used in any process;
- continue the existing exemptions for handloom fabrics, silk, khadi and polyvastra; and
- reduce the basic customs duty on paraxylene from 10 per cent to 5 per cent.

The procedure for the decentralized sector will be simplified so as to exempt job workers from maintaining any central excise records or even from central excise registration. Garments and fabrics manufactured by non-profit charitable institutions will, however, be exempt from excise duty.

As for customs, the duty on apparel grade raw wool shall now be reduced from 15 per cent to 5 per cent. Further, to encourage modernisation of the textile industry, it is proposed that the customs duty on a large number of textile machinery and their parts be reduced from the existing 25 per cent to just 5 per cent.

Simultaneously, it is necessary to give a helping hand to the power-looms. For this decentralized sector, it is proposed to strengthen the existing programme for Induction of Technology in the Weaving Sector

further by offering a 'Power-loom Package for Modernisation'. This package will have the following three features:

First, the Technology Upgradation Fund Scheme will be enlarged to cover modernisation of power-looms.

Second, to create a better working environment and obtain higher productivity, a new Power-loom Workshed Scheme will be introduced by the Ministry of Textiles together with the State Governments. Improvement of other infrastructure of existing power-loom clusters will be taken up under the revised Textile Sector Infrastructure Development Scheme.

Third, as a welfare measure, all powerloom workers will be covered under the Special Insurance Scheme, which will provide them insurance cover against death, accident and disability.

Recognising the need to prevent sickness in the textile industry, Government is considering a mechanism for restructuring the debt portfolios of viable and potentially viable textile units. The details will be decided in consultation with all the stake holders.

Pharmaceuticals

All the benefits listed under health-care will also promote pharmaceutical industry. Besides, income tax concessions to pharmaceuticals, bio-technology and information technology are at par. All drugs and materials imported or produced domestically for clinical trials will be exempt from customs and excise duties. Customs duty on import of Reference Standards by the industry has been reduced from 25 per cent to 5 per cent.

Information Technology (IT)

IT is India's showpiece success story. We have to not just maintain its momentum of growth, but continuously encourage it. Therefore, it is proposed that the concessions extended to IT under Sections 10A and 10B of the Income Tax Act will continue as originally envisaged. As per law such companies as are currently covered by these tax exemptions lose the benefits upon change in their ownership or shareholding. This is not logical. I am, therefore, removing these restrictions; the benefit of such tax exemptions will remain even in the case of amalgamation or de-merger.

Another anomaly is levy of excise duty on pre-loaded software in the case of computers. As software is already exempt from excise duty, I see no reason why this benefit should be denied simply because it gets loaded in a computer. From now, the value of pre-loaded software will be excluded for the purpose of charging excise duty on computers.

Customs duty on specified electronic components for IT industry is being reduced in conformity with our WTO commitment.

In addition, customs duty on a number of capital goods used by the telecom and IT sector for manufacture of components will be reduced from 25 per cent to 15 per cent. For optical fibre cables, used widely for networking to provide bandwidth to the IT community, the customs duty is also being reduced from 25 per cent to 20 per cent. To help the domestic industry to manufacture e-glass roving used for making optical fibres, it is proposed to reduce the import duty on specified raw materials for the manufacture of e-glass roving from 30 per cent to 15 per cent.

Telecom and domestic satellite service companies enjoy the benefit of tax holiday. Since it takes quite some time for such projects to materialize, I propose to extend the deadline of setting up the units by one more year to 31 March 2004.

Bio-Technology

Bio-tech is our today's sunrise, tomorrow's showpiece industry. The Government, to facilitate units engaged in R&D in bio-technology and the pharmaceuticals sector, has decided to remove the existing restriction of minimum export obligation of Rs. 20 crore for availing exemption from customs duty for specified equipments. Further, the restriction of full exemption being limited to only 1 per cent of last year's export turnover is also lifted for R&D units. Moreover, in respect of R&D units with manufacturing facilities, the benefit of full customs duty exemption for specified equipment will also be available for their manufacturing activity to the extent of 25 per cent of the previous year's export turnover.

So far as benefits under direct taxes are concerned, biotech enjoys the same tax incentives as the IT or pharmaceuticals industry.

Tourism

Tourism, in addition to generating incomes, is amongst the most effective employment creating sectors. To provide a set of incentives to this industry, the following proposals will be implemented:

(a) withdraw the expenditure tax;

(b) extend the benefit of Section 10(23G) to financial institutions that advance long-term capital to hotels in three-star and above categories;

(c) the benefit of set-off of unabsorbed loss and depreciation on amalgamation will henceforth be available to hotels under Section 72A of the Income Tax Act;

(d) continue the exemption for the hotel industry from the levy of service tax; and

(e) reduce basic customs duty on imported equipment for ropeway projects to 5 per cent without payment of CVD and SAD.

It is our hope and expectation that the States, on their part, will now give a commensurate boost to the tourism sector by abolishing the luxury tax that they charge.

Gems and Jewellery

Traditionally, India has always excelled in the field of diamond and gem cutting, polishing and in the craft of gold smithy. With a view to nurturing this industry, it is proposed to reduce the customs duty on rough, coloured gem stones from 5 per cent, and on semi-processed, half-cut or broken diamonds from 15 per cent to nil. Customs duty on cut and polished diamonds and gem stones will also be reduced from the present 15 per cent to 5 per cent.

As for gold, it is proposed to reduce the customs duty on imported gold to Rs. 100 per 10 grams from the present level of Rs. 250 per 10 grams, but only when it is brought in the form of serially numbered bars, or in the form of gold coins, not as '*tola*' bars, please. It is my hope and expectation that this will become the first step in enabling India to shortly emerge as the gold-trading capital of the world.

The gems and jewellery industry has also been quite apprehensive about withdrawal of benefits under Sections 10A and 10B of the Income Tax Act. I would like to assure them that no such step is contemplated. Keeping in view the substantial value addition that takes place in the case of cutting and polishing of diamonds and gems, it is also proposed to extend the benefits under Sections 10A and 10B of the Income Tax Act to these activities.

Strengthening ECGC

Export Credit Guarantee Corporation of India Ltd. (ECGC) has been playing a crucial role by providing credit insurance cover for exports from the country. There is great potential for project exports from India with our exporters winning bids against intense international competition. In order to enable ECGC to provide adequate underwriting support to such projects, the Government has decided to increase its share capital to Rs. 80 crore.

Small Scale Industry (SSI)

A vibrant small scale industry, contributing to both industrial and export growth, is critical for sustained growth in income and employment. Mr. Speaker, as I have already said, the full benefits of the declining rates of interest have percolated neither to agriculture, nor to small-scale industry. The recent announcement by the State Bank of India and the decision by the Indian Bank Association about an interest rate band of 2 per cent above and below PLR for secured advances will help the SSI sector in obtaining bank finance at moderate rates of interest. In addition, benefits and entitlements available to this sector shall be placed on the Ministry's website, for ready reference.

Accessing the global market with consumer goods of quality, at competitive prices, produced in both large and small-scale establishments operating under flexible conditions, is the goal that we need to target. Members will recall that last year, Government had announced the dereservation of over 50 items. After consultations with stakeholders in respect of certain other items in the reserved list, it is now proposed to withdraw SSI reservation from another 75 items of laboratory chemicals and reagents, leather and leather products, plastic products, chemicals and chemicals products and paper products. The Minister of Small Scale Industries will announce the details of these items separately. To help further investment in the SSI sector, Government will examine the question of a limited partnership act.

Promoting India: India Development Initiative

An initiative to promote India as both a production centre and an investment destination, called 'India Development Initiative', shall be established in the Ministry of Finance, with an allocation of Rs. 200 crore for 2003-04. This initiative will also leverage and promote our strategic economic interests abroad.

Disinvestment

Disinvestment receipts for the current year are estimated at Rs. 3,360 crore. I am confident that the pace of disinvestment will accelerate in the coming year. I wish to also state that details about the already announced Disinvestment Fund and Asset Management Company, to hold residual shares post disinvestment, shall be finalized early in 2003-04. Mr. Speaker, Sir, disinvestment is not merely for mobilizing revenues for the Government, it is mainly for unlocking the productive potential of these undertakings and for reorienting the Government, away from business and towards the business of governance.

OTHER REFORMS

Banking

Foreign Direct Investment (FDI) in the banking companies in India is presently capped at 49 per cent from all sources under the automatic route. For facilitating the setting up of subsidiaries by foreign banks, as well as for inviting investment in private banks, this limit will be raised to at least 74 per cent.

The voting rights of any person holding shares of a banking company are restricted to 10 per cent irrespective of his/her shareholding. The Banking Regulation Act, 1949 will be amended to remove this limitation.

I now also extend the benefit of Sec. 72A of Income Tax Act to nationalized banks. Any banking company can now merge with a nationalized bank with consequential tax benefit.

As the Hon'ble Members know, the Government is determined to contain the problem of non-performing assets (NPAs) and ensure a credit market that functions efficiently. Following the Budget announcement last year, the Credit Information Bureau has already been established. It is proposed to provide the necessary legislative support to this Bureau.

Interest rate

High rates of interest, in a low inflation regime, clearly act as disincentive to investment. It is, therefore, important that administered interest rates on public provident fund and other small saving schemes be adjusted in line with the market rates. Accordingly, rates of interest on public provident fund and small savings schemes, etc. will be reduced by one percentage point with effect from 1 March. Interest on relief and savings bonds will also be reset accordingly. Hon'ble Members may, however, note that the real returns—adjusted for inflation—offered on these instruments are still a remunerative 6.3 per cent per year; higher than what they were between 1991-92 and 1995-96.

Capital Account

Over the last few months, Government has taken a number of steps to ease restrictions on capital account mobility. After careful assessment, I would like to announce the following additional steps:

- To enable diversification, overseas investment under the automatic route will be permitted to corporates with a proven track record,

even where the investment is not in the same core activity. Further, the current restriction, limiting such investment to 50 per cent of the net worth of the Indian company, will now be raised to 100 per cent.

- Prepayment of ECB dues under the automatic route will be permitted by removing the current ceiling of US $100 million.

The Government is already considering a major review of sectoral limits for investments by Foreign Institutional Investors. In order to facilitate their easy entry into the stock markets, the process of their registration will be further streamlined. Several steps have recently been taken to ease flows of Capital. There will be more initiatives in this regard.

External Aid

Mr. Speaker, Sir, a stage has come in our development where we should now, firstly, review our dependence on external donors. Secondly, extend support to the national efforts of other developing countries. And, thirdly, re-examine the line of credit route of international assistance to others. Having carefully weighed all aspects, I propose the following measures:

(a) While being grateful to all our development partners of the past, I wish to announce that the Government of India would now prefer to provide relief to certain bilateral partners, with smaller assistance packages, so that their resources can be transferred to specified non-governmental organisations (NGOs) in greater need of official development assistance. The current agreed programmes will, however, continue and reach their completion. Of course, there will be no more 'tied aid' any longer.

(b) Having fought against poverty, as a country and a people, we know the pain and the challenge that this burden imposes. For the Heavily Indebted Poor Countries (HIPCs), owing overdue payments of substantial sums to India, I am happy to announce that we will be considering a debt relief package. This will be announced shortly in consultation with the Ministry of External Affairs.

(c) I am also happy to announce that the Government proposes to generally discontinue the practice of extending loans or credit lines to fellow developing countries. Instead, in future, I propose to utilize the 'India Development Initiative', which I have already announced, for providing grants or project assistance to developing countries in Africa, South Asia and other parts of the developing world.

Reform and Reorganisation of the Ministry of Finance

Responsibilities of the Department of Company Affairs, the Foreign Promotion Investment Board (FIPB) and the regulation of the new Pension Funds Scheme have recently been added to the Ministry of Finance. There is, therefore, need to reorganize the Ministry, also to go back to the simpler and more direct name as the Ministry of Finance. The Department of Company Affairs is now being absorbed as a Department and will sadly no longer stand shoulder to shoulder with Finance.

In the Ministry of Finance, the Department of Economic Affairs will be restructured and have separate divisions dealing with economic policy analysis: international and national; capital markets; budget; banking; trade and aid concerns; and infrastructure and coordination.

To remain better abreast of agriculture, an Expert Advisory Council, to advise the Ministry of Finance, will be set up for agriculture.

TAX REFORM, REVISED ESTIMATES AND BUDGET ESTIMATES

I now come to taxes, tax reforms and the book-keeping of the current year, as also 2003-04. Mr. Speaker, I want to emphasise six important aspects in this regard. First, the coming year will be historic with the States switching over to a Value Added Tax (VAT). The Central Government has been a partner with the States, in the highest tradition of cooperative federalism, in this path-breaking reform. This will also involve an amendment to the Additional Excise Duty Act. Second, it is proposed to make 2003-04 the year when a long-overdue Constitutional amendment to integrate services into the tax net in a comprehensive manner is enacted and implemented. This will give a boost to revenues and help implement VAT. Third, there will be major improvements in tax administration through greater application of IT and a discretion-free, impersonal system. Fourth, excise duties are being rationalised further. Fifth, the momentum of reducing customs duty is being maintained so as to improve the competitiveness of Indian industry in international markets. And, sixth, Government shall continue to strive towards fiscal consolidation through expenditure reprioritisation and revenue augmentation.

State-level Value Added Tax (VAT)

The Conference of State Chief Ministers, presided over by the Prime Minister, held on 18 October 2002 confirmed the final decision that all States and Union Territories would introduce VAT from April 2003. The Empowered Committee of State Finance Ministers, on 8 February 2003, has again endorsed the suggestion that all State legislations on VAT

should have a minimum set of common features. Apart from avoiding cascading of taxes, the introduction of VAT is expected to increase revenues as the coverage expands to value addition at all stages of sale in the production and distribution chain. However, in view of the apprehensions expressed by a large number of States, about possible revenue loss, in the initial years of introduction of VAT, the Central Government has agreed to compensate 100 per cent of the loss in the first year, 75 per cent of the loss in second year and 50 per cent of the loss in the third year of the introduction of VAT; this loss being computed on the basis of an agreed formula.

The Government of India considers the introduction of VAT, at the State level, to be a historic reform of our domestic trade tax system, it will assist the States to transit successfully from the erstwhile sales tax system to a modern domestic system, at present in use in over 120 countries.

Additional Excise Duty (AED) *in lieu* of Sales Tax

While continuing to give States the additional 1.5 per cent of all shareable taxes and duties, in order to enable them to generate more revenues, the Additional Duties of Excise (Goods of Special Importance) Act, 1957 is being amended, from a date to be notified. This will allow the States to levy sales tax on textiles, sugar and tobacco products at a rate not exceeding 4 per cent. This will also enable the States to integrate these three important products in the VAT chain.

Service Tax: a proposed Constitutional Amendment

To enable levy of tax on services as a specific and important source of revenue, an amendment to the Constitution is proposed. This Constitutional amendment and the consequent legislation would give the Central Government the power to levy the tax and both the Central and the State Governments sufficient powers to collect the proceeds.

Central Sales Tax

With the introduction of VAT, there is need to now phase out the CST and move to a completely destination-based system. This can not be done in one step. We must let VAT stabilize; but also recognize that these two—VAT and CST—cannot remain in tandem, in perpetuity. Therefore, in the first instance, the ceiling rate of CST for inter-State sale between registered dealers will be reduced to 2 per cent during 2003-04,

with effect from a date to be notified. The Government of India will compensate the States for loss of revenue from this reduction of the CST. This will be done, as all these steps have been undertaken, only after arriving at a consensus with the Empowered Committee of State Finance Ministers.

I do wish to place on record my high appreciation of the cooperation that I have received from this Committee. Without that, I simply could not have reached here.

Task Forces

As the Hon'ble Members are aware, in September 2002, three Task Forces were set up: one each on Direct and Indirect Taxes and the third on Corporate Governance.

These were chaired respectively by Dr. Vijay Kelkar and Shri Naresh Chandra. The former also issued preliminary proposals in November, in the form of consultative papers for public comment. After evaluating all these comments, final reports were given in December 2002.

Public response to these Task Forces and their Reports has been overwhelming. This is a tribute to the excellent work done by Dr. Kelkar and Shri Naresh Chandra and their selfless and dedicated teams.

By opening up the budget-making process, the Kelkar Committee Reports have more than fulfiled my basic purpose of involving, as far as practical, our citizens, in the annual budgetary exercise. I have personally benefited very greatly from these Reports, as also from this open debate. I take this opportunity to express my sincere gratitude to the two Chairmen and all members of the Task Forces, as also members of the public for their valuable comments and suggestions.

With regard to the Naresh Chandra Committee Report, corporate governance is high on the Government's agenda. There will be a set of regulations that does not inhibit managerial initiative while instituting a mechanism for early detection of frauds and their prevention. For this purpose, a Serious Frauds Office has already been set up.

Now, let me deal with the two reports on taxation. The Ministry has analysed them fully.

The basic philosophy of these reports is sound. For a modern, forward-looking and in the long run, revenue-beneficial taxation system the proposals that have been mooted may be the most appropriate. There is need to, eventually, move away from an exemption and discretion based system to a different, more current order. That is the ideal that the Task Forces, particularly in respect of direct taxes have suggested; a radically new approach to taxation.

This ideal is difficult to achieve in one leap and I can scarcely cross the existing conceptual chasm in two. We cannot ignore the commitments made, or wish them away. That is why I choose to bridge the divide. We will, therefore, stay with the basics of the present system of taxation, but we will, indeed have already accepted, most of the suggestions made by the Task Forces designed to eliminate procedural complexities, reduce paper work, simplify tax administration and to enhance efficiency, also integrate such tax proposals as the system can, at present, absorb, with one overriding thought: Mr. Speaker, Sir, this will be a move away from a suspicion-ridden, harassment generating, coercion-inclined regime to a trust-based, 'green channel' system. I do this entirely on the basis of my faith in my countrymen and women.

I now come to the tax proposals proper. What I describe below are the major changes proposed, not every detail of change, apart from those already described in the portion dealing with specific sectors. Details are contained in the Finance Bill and the relevant notifications, which will be laid on the Table of the House in due course. Moreover, as the Hon'ble Members are aware, Budget Day restrictions in respect of clearance of goods have been revoked to allow economic activity to continue without any hindrance.

Direct Taxes

Rates

Rates of income tax, both corporate and non-corporate, have remained largely stable since 1997. As stability and continuity are commended as virtues in tax regimes, I intend to be virtuous. Corporate tax structure will, therefore, be left as it is; except that the 5 per cent surcharge, levied last year in connection with the security of India, will be halved in the case of corporate assessees, firms, foreign companies, cooperatives and local authorities. In the case of individuals, Hindu Undivided Families (HUF) and Association of Persons etc., this surcharge will be removed entirely, except in the case of those earning an income above Rs. 8.5 lakh. From them, that is those earning above Rs. 8.5 lakh, I will collect a 10 per cent surcharge on the tax, which works out to less than 3 paise out of an income of a rupee. But, I have provided some relief to them, as well, for example, in standard deduction.

Standard Deduction

There are more salaried taxpayers at income levels of Rs. 2 lakh and above than the non-salaried. I do often wonder, why? That is why the salaried always complain, saying they do not have—that cliche

phrase—a level playing field; I agree, they do suffer a more exacting regime. Therefore, as already announced, their standard deductions are raised.

Individual taxpayers having income from dividends, interest, etc. are given a general deduction of Rs. 9,000. As promised by me earlier, this deduction has now been increased to Rs. 12,000. An additional deduction of Rs. 3,000 is allowable in respect of interest from Government securities. Thus, the total deduction available under Section 80L will be Rs. 15,000. Though dividend will not be taxable in the hands of the recipient from next year, I propose to retain this deduction at Rs. 15,000 for next year also.

Tax Deduction at Source

A lot of unintended difficulties are caused by certain provisions dealing with tax deductible at source (TDS); much too tedious to elaborate here. I want to correct this. Therefore, in simple terms, it is now provided that individuals and HUF carrying on business or profession need not deduct tax at source, from payments made by them for personal purposes.

Not Ordinarily Resident

There is a category of taxpayers in India ordinarily not found elsewhere—the 'not ordinarily resident'. They do not normally have to pay tax on their foreign sourced income. There has been confusion on this provision in the past due to differing legal interpretations. To set matters at rest, the relevant definition has been suitably amended so that the benefit will now be available to persons for two years in case they remain non-residents for the last 9 out of 10 years.

Administrative Reform

In the area of tax administration, Government has initiated a whole basket of reforms, mainly on the basis of the recommendations of the Kelkar Committee. Some of the principal ones are:

(a) outsourcing of non-core activities of Income Tax Department, namely allotment of PAN and creation of data bank of high value transactions through tax information network;

(b) immediate abolition of present discretion-based system for selection of returns for scrutiny; this will be replaced by a computer generated, intelligent, random selection of only 2 per cent of the returns, annually;

(c) expanding the scope of taxpayer services, including extension of interactive voice response system to more cities and software for preparation of returns;

(d) direct crediting of all refunds to the bank account of the taxpayer, through electronic clearance system; but obviously only if the taxpayer furnishes a bank account number;

(e) reduce the compliance cost of the taxpayer, through halving the number of forms presently used in furnishing of applications, returns, etc., for the purposes of tax deduction and tax collection at source, from the present 42 to just 22. Hon'ble Members, if in only one attempt I could halve this headache, please reflect upon the immense possibilities that lie on this route;

(f) immediate introduction of a one-page only return form for individual tax payers, having income from salary, house property and interest, etc. This has already been devised and will come into operation from 1 April onwards;

(g) the Income Tax Act is being amended to enable electronic filing of returns;

(h) abolition of tax-clearance certificates currently needed by a person leaving India, or any person submitting a tender for a government contract. Henceforth, only expatriates who come to India in connection with business, profession or employment, would have to furnish a guarantee from their employer, etc. in respect of the tax payable before they leave India. An Indian citizen, before leaving India, will only have to give his/her permanent account number and the period of his/her intended visit abroad to the emigration authorities; and

(i) simplifying the procedure and methods employed during search and seizure and during survey by the Income Tax department. First, hereafter, stocks found during the course of a search and seizure operation will not be seized under any circumstances. Second, no confession shall be obtained during such search and seizure operations. Third, no survey operation will be authorized by an officer below the rank of Joint Commissioner of Income Tax. Finally, books of account impounded during survey will not be retained beyond ten days, without the prior approval of the Chief Commissioner.

These, Hon'ble Members, are only a few steps on this long road called simplification and rationalisation of taxation. It is not for nothing that even Albert Einstein had ruefully observed that he found 'Income Tax the most difficult thing upon Earth to understand'.

Mr. Speaker, please sympathize with me. I endeavour to make easy that which Einstein found so difficult.

Indirect Taxes: Excise

Rationalisation and Relief

Rationalisation of excise rate structure and reduction of the multiplicity of rates are integral to the total tax reform process. In this regard, I propose to prescribe a 3-tier excise duty structure of 8 per cent, 16 per cent and 24 per cent These rates would, however, not apply in the case of petroleum and tobacco-products, *pan masala* and items attracting specific duty rates. I have already announced a separate package for textiles and some changes in the duty structure relevant for some other key sectors while dealing with those sectors. I will now refer to the changes proposed in various other commodities.

Currently, tyres, aerated soft drinks, polyester filament yarn, air-conditioners and motor cars attract excise duty of 32 per cent. I propose to reduce the duty on these items to 24 per cent.

Certain exempt items were brought under the tax net during the last two years with an optional duty of 4 per cent without CENVAT, or 16 per cent with CENVAT. I propose to eliminate the 4 per cent duty without CENVAT. However, keeping in view the number of representations received for exemptions, I propose to fully exempt the following items of the ordinary citizen's use, currently attracting 4 per cent excise duty:

- Unbranded surgical bandages
- Registers and account books
- Umbrellas
- Kerosene pressure lanterns
- Articles of wood
- Imitation *zari*
- Adhesive tapes
- Tubular knitted gas mantle fabrics
- Walking sticks
- Articles of mica
- Bicycles and parts
- Toys

- Mosaic tiles
- Utensils and kitchen articles
- Knives, spoons and similar kitchenware/tableware
- Glasses for corrective spectacles

Rest of the items attracting 4 per cent without CENVAT will now attract duty at 8 per cent with CENVAT.

I also propose to fully exempt from excise duty matches made by the non-mechanized sector. However, matches made by semi-mechanized and mechanized sector will attract an *ad valorem* duty of 8 per cent without CENVAT.

I also propose to reduce the excise duty chargeable under the Medicinal and Toilet Preparations Act, on medicines and toilet preparations containing alcohol, from the present high rates of 20 to 50 per cent to a uniform rate of 16 per cent, at par with the rates on similar items not containing alcohol. However, exemptions on ayurvedic and unani medicines, containing self-generated alcohol, will continue.

I propose to reduce the excise duty on items like pressure cookers, ophthalmic blanks, biscuits, boiled sweets and dental chairs from 16 per cent to 8 per cent. Recorded audio compact discs (CDs) will be fully exempt from excise duty.

It is my conviction, Mr. Speaker, that these measures will result in "*Grihini ki tukia mein anna*": the second part of my assurance.

Transport

As I have earlier stated, efficient transportation is critical for rapid development. I have already announced major reduction in excise duty on motor cars and tyres. Further, on environmental considerations, I propose to reduce the duty on electric vehicles from 16 per cent to 8 per cent.

Presently, there is an inequitous duty structure between buses and trucks, manufactured by an integrated unit, *vis-a-vis* independent body builders, who are exempt from excise duty. To reduce the duty differential and to promote body building by integrated bus and truck manufacturers, as a measure of road safety, I propose to increase the duty on chassis from 16 per cent, to 16 per cent plus Rs. 10,000 per chassis, cleared for outside body building. The body building activity in the unorganized sector would, however, continue to remain exempt.

It is an accepted principle that while taxation should be moderate, the tax base has to be large, so that every sector contributes moderately to the national economy. Following this principle, I propose to impose fresh excise levy of 8 per cent on the following items, with the CENVAT credit facility available to them: branded refined edible oil and vanaspati packed in sealed containers for retail sale — this will not apply to unbranded oil; lay flat tubing; chemical reagents; wood-free particle or fibre board made from agro base; paper and paper board made from non-conventional raw material; and populated printed circuit board for black and white TV sets.

Considering that specific rates on cement and clinker have remained unchanged for a considerably long period of time, I propose to now increase these rates by Rs. 50 per ton. This will mean a modest increase of Rs. 2.50 per 50 kg. bag of cement.

I also propose to impose additional excise duty of Rs. 1.50 per litre on light diesel oil to further discourage its use as an adulterant.

Trade Facilitation Measures

For trade facilitation, I propose to take the following measures:

(a) The present system of fortnightly payment of excise duty will be liberalized to permit payment of duty at the end of the month. Further, the excise duty will be considered to have been paid on the date the cheque is presented to the bank subject to realisation.

(b) Deduction from the transaction value is allowed on actual freight incurred, provided that is clearly shown in the invoice. This facility will now be extended to cases where freight is worked out on an equalized basis also.

(c) Over the years, the Maximum Retail Price (MRP) based excise levy has proved to be an effective measure of simplification by reducing valuation disputes. I propose to extend the MRP-based excise levy to chewing tobacco and insecticides.

National Calamity Contingency Fund

Unfortunately, the Nation has been facing a severe drought this year. The funds raised earlier under the National Calamity Contingent Duty are not sufficient. It is, therefore, proposed to impose a 1 per cent National Calamity Contingent Duty on polyester filament yarn, motor cars, multi utility vehicles and two-wheelers. Similarly, crude, domestic or imported, will also be subjected to a duty of Rs. 50 per metric ton for this purpose. However, these new levies will be limited to one year only.

While the Small Scale Exemption Scheme aims at providing a distinctive advantage to labour-intensive units, there are reports of misuse of this facility in certain sectors. I propose to withdraw this facility in case of a few items and rationalize the eligibility limit of Rs. 3 crore under the general SSI scheme.

Service Tax

I propose to enhance the general service tax rate from 5 per cent to 8 per cent and also impose service tax on 10 new services. While the increase in the tax rates will come into effect on enactment of the Finance Bill, the levy of tax on the new services will take effect from a date to be notified.

Last year credit of service tax on input services were extended for payment of service tax, provided the input and the final services fell within the same category. I propose to extend this facility across all services. Thus, the credit will now be available even if the input and the final services fall under different categories.

Indirect Taxes: Customs

External Liberalisation

Rate rationalisation and reduction of peak rates of customs duties has been an integral part of economic reform in the country. The economy has not only 'weathered' the removal of quantitative restrictions on imports and the reduction in customs duty rates, but has responded by improving its competitiveness and demonstrating the inherent strength of its external balance of payments. As a part of this continuous process and in line with the pronouncements made by several of my predecessors, I now propose to reduce the peak rate of customs duty from 30 per cent to 25 per cent, excluding agriculture and dairy products.

Rationalisation and Relief

It has been our policy to minimize sector-specific and end-use based customs duty exemptions. This policy will continue. Metallurgical coke and nickel attract customs duty rates at 15 per cent and 5 per cent, depending upon their usage. I, therefore, propose to rationalize the customs duty on these two items to a uniform rate of 10 per cent.

Conch shells and seed lac are really handicraft items. Their duty will come down from 30 per cent—why was it ever 30 per cent—to 5 per cent.

Import duty on oleo pine resin, a raw material for rosin shall be reduced from 15 per cent to 10 per cent.

Value limit for a full customs duty exemption, for *bona fide* commercial samples and gifts, however, shall be raised from Rs. 5,000 to Rs. 10,000.

I also propose to reduce the customs duty on passenger baggage from 60 per cent to 50 per cent.

Phosphoric acid, an input for fertilizers, is exempt from the Special Additional Duty of Customs (SAD). For the sake of uniformity, I propose to exempt rock phosphate and crude sulphur, inputs for phosphoric acid, also from SAD.

The basic customs duty on alcoholic liquor will come down to 166 per cent in conformity with our WTO commitments. I also propose to rationalize the countervailing duty in respect of imported alcoholic beverages including wines.

Capital Goods and Infrastructure

Considering higher usage levels of Liquified Natural Gas (LNG), I propose to reduce the customs duty on LNG regassification plants from 25 per cent to 5 per cent.

There is need to support cleaner and environment-friendly technologies. With this end in view, I propose to reduce the customs duty on components of membrane cell technology used in the caustic soda industry from 15 per cent to 5 per cent.

Safety and modernisation are key issues before Indian Railways. I propose, therefore, to reduce customs duty on spares for diesel locomotives, parts for conversion of locomotives from DC to AC from 25 per cent to 15 per cent and loco simulators for training of drivers from 25 per cent to 5 per cent.

Given the importance of promoting food-processing and transporting agricultural products, I propose to reduce the customs duty on refrigerated trucks from 25 per cent to 20 per cent.

Trade Facilitation

I assure Hon'ble Members of faster clearance hereafter of cargo and fewer procedures, by reducing the transaction cost, thus facilitating exports and imports. For this, a number of measures have been taken to simplify and modernize the customs clearance procedures, with the main emphasis being on cutting down contact of trade with the officers, to the extent possible and introducing computerisation in customs clearances. While these efforts will continue, as a further trade facilitation measure, I propose to increase the interest-free period for warehoused goods from 30 to 90 days and to reduce the rate of interest for the period beyond 90 days to reflect the market rate of interest.

To bring our customs clearance procedures at par with best international practices, I propose to introduce, this year itself, a self-assessment scheme for importers and exporters. Briefly stated, under the self-assessment scheme, the importer himself/herself will determine the classification of goods, including claim for any exemption benefit and the system will calculate the duty based on his/her declaration. Physical inspection of imported goods will be done by using risk-assessment and management techniques on a computer-based system and not on the orders of customs examining staff. Further, the existing system of concurrent audit of import documents will be replaced by post-clearance audit, as prevalent in developed countries.

Sir, my proposals made in this Budget on the Direct Taxes will result in a revenue loss of Rs. 2,955 crore while the proposals relating to indirect taxes will result in a gain of Rs. 3,294 crore.

Revised Estimates for 2002-2003

The revised estimates for the current fiscal year show a decrease in expenditure of Rs. 6,296 crore as compared to the Budget estimates. This reduction in overall expenditure has been achieved despite additional expenditure on drought relief, food subsidy and the Delhi Metro Rail Project.

Net tax revenues for the Centre are estimated to be Rs. 1,64,177 crore compared to the Budget estimate of Rs. 1,72,965 crore, thereby reflecting as shortfall of Rs. 8,788 crore. Non tax revenue is estimated at Rs. 72,759 crore, Rs. 619 crore more than the estimated level of Rs. 72,140 crore. However, disinvestment receipts, at Rs. 3,360 crore are lower than the Budget estimate of Rs. 12,000 crore.

Budget Estimates for 2003-2004

In the Budget estimates for 2003-2004, the total expenditure is estimated at Rs. 4,38,795 crore, of which Rs. 1,20,974 crore is for Plan and Rs. 3,17,821 crore for non-Plan.

Plan Expenditure

In order to strike the right balance between the developmental needs on one hand and fiscal stability on the other, the Gross Budgetary Support (GBS) for Plan 2003-04 has been fixed at Rs. 1,20,974 crore. This is Rs. 7,474 crore more than last year, indicating an increase of 6.6 per cent. Out of this, an amount of Rs. 72,152 crore is being provided as Budget support for Central Plan. This is an increase of Rs. 5,281 crore, or 7.9 per cent, over the last year. Similarly, the Central Assistance for

State Plans has been pegged at Rs. 48,822 crore, which is Rs. 2,193 crore more than last year.

Non-Plan Expenditure

Non-Plan expenditure in 2003-2004 is estimated to be Rs. 3,17,821 crore compared to Rs. 2,89,924 crore in Revised estimates for 2002-03. The increase in non-plan expenditure is mainly in interest payments (Rs. 7,560 crore), subsidies (Rs. 7,162 crore), and defence (Rs. 9,300 crore). Government is fully committed to modernizing the armed forces and equipping them with the best available. This is non-negotiable. Therefore, during the next year, any additional requirement that may emerge on account of modernisation needs of the three defence services, or on account of the Married Accommodation Project, will be fully met. There will be no shortage of funds for defence.

Revenue Estimate and Fiscal Deficit

Mr. Speaker, Sir, with these proposals I estimate total revenue receipts of the Centre at Rs. 2,53,935 crore and the fiscal deficit at Rs. 1,53,637 crore, which is 5.6 per cent of the estimated GDP.

Conclusion

Sir, in formulating the Budget for 2003-04, the Government has had to carefully and delicately balance the need for accelerating growth, while simultaneously making progress on the front of fiscal consolidation. I know that what Government has done is the most judicious under the circumstances.

This Budget is about addressing the problem of poverty and life-time concerns of our citizens; of giving a major boost to infrastructure; and laying the foundations for balanced, accelerated growth of agriculture and industry, plus tax reform. I have tried to address the '*Panch Priorities*' and I hope, that after this year of drought, our economy will respond favourably to the Budget package and demonstrate impressive growth in 2003-04.

Let me end, Mr. Speaker, by reiterating that this Budget is of an "India that is on the move". An India, that now rapidly advances to prosperity. It is about an India that banishes poverty and builds on its great resource base, the strength of its human capital and the immense reservoir of its knowledge.

Sir, I commend the Budget to the House.

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