SPEECH OF SHRI P. CHIDAMBARAM, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 2004-2005*

Highlights

- *Proposal to upgrade Industrial Training Institutes (ITIs)*
- *Groups Health Insurance Scheme to be Launched*
- *Proposal to Launch a Massive Scheme for Restoring Water Bodies Linked to Agriculture*
- *Proposal to Facilitate Construction of International Container Transhipment Terminal (ICTT)*
- *Proposal to Establish an Investment Commission and National Manufacturing Competitiveness Council*
- *Proposal to Establish a Board for Reconstruction of Public Sector Enterprises (BRPSE)*
- *Setting up of the Fund for the Regeneration of Traditional Industries*
- *A Backward State Grant Fund to be set up*
- *Family Pension for Nominees of the Armed Forces Personnel killed in Action Exempted from Income Tax*

Mr. Speaker, Sir

Introduction

I rise to present the budget for the year 2004-05.

Every five years, or sometimes sooner, the people of India speak in their collective voice. The message is usually unambiguous and clear. Elections 2004 were no different. The people's vote against one coalition—and the vote in favour of another coalition—was a vote for change.

* *Lok Sabha Debate,* 8.7.2004, cc. 2-35.

As the Prime Minister, Dr. Manmohar Singh, said in his address to the Nation two weeks ago, the people have sought "a change in the manner in which this country is run, a change in national priorities, and a change in the processes and focus of governance". I shall make every effort to be true to that mandate.

National Common Minimum Programme: The Guiding Light

The United Progressive Alliance (UPA) has given to itself, and to the people of this country, a Common Minimum Programme. The Government has since adopted it as the National Common Minimum Programme (NCMP). The programme spells out seven clear economic objectives:

(1) maintaining a growth rate of 7-8 per cent per year for a sustained period;

(2) providing universal access to quality basic education and health;

(3) generating gainful employment in agriculture, manufacturing and services and promoting investment;

(4) assuring 100 days' employment to the breadwinner in each family at the minimum wage;

(5) focusing on agriculture and infrastructure;

(6) accelerating fiscal consolidation and reform; and

(7) ensuring higher and more efficient fiscal devolution.

The UPA Government began its journey in May this year. However, I may note that one-quarter of the year has elapsed and by the time the Budget is passed and the President gives his assent to the Finance Bill, nearly one-half of the year will be over. There is also an Interim Budget left behind by my predecessor.

The Government has to shift gears; and even if we are able to do so quickly, it would leave us only about six months to achieve our objectives for this year. We have therefore decided to adopt an innovative approach. The Planning Commission has advised the ministries and departments to redefine their priorities and redraw their programmes in accordance with the NCMP. This will necessarily involve some changes in the allocations under each head of expenditure. Besides, new programmes or schemes may have to be launched and old ones restructured. Under the circumstances, it was considered optimal to allow the ongoing programmes to continue until the Planning Commission completes an exhaustive review and reorients the expenditure pattern to conform to the NCMP objectives. One thing, however, is clear. The Plan resources made available in the Interim Budget will be insufficient. Hence, in addition to the Gross Budgetary Support (GBS) of Rs. 1,35,071 crore

provided in the Interim Budget, I propose to provide a sum of Rs. 10,000 crore. This, and some other additional allocations, will raise total plan expenditure to Rs. 1,45,590 crore in the Budget Estimates for 2004-05.

FRBM and the Macroeconomic Backdrop

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 has streamlined the Budget presentation process. The Government has demonstrated its commitment to prudent fiscal and financial policies by notifying the Act and the Rules with effect from 5 July 2004. Along with the Budget, a medium-term fiscal policy statement, a fiscal policy strategy statement and a macroeconomic framework statement are being presented to the House.

Under the FRBM Act, I am obliged to wipe out the revenue deficit by 2007-08. However, the NCMP has proposed that we do so by 2008-09. In my view, 2008-09 is a more credible terminal year; it will also coincide with the term of this Government. Hence, I propose to move an amendment to this effect through the Finance Bill. I am committed to implementing the FRBM Act. The elimination of revenue deficit will open up fiscal space up to 3 per cent of GDP for enhanced public investment without undermining fiscal prudence.

The economic fundamentals appear strong and the balance of payments is robust. Although there are short term pressures on prices, the outlook for the year is benign and the Government is fully alert. Growth will be sustained by increased production and value addition in agriculture, a marked improvement in industrial production and continued buoyancy in the performance of the services sector.

The Government will follow a 5-year road map to achieve the NCMP objective of bringing about rapid growth with stability and equity. Sequencing the measures in an appropriate fashion and continuing the reform process, which ushered in the era of rapid growth, are the main challenges. The Government is committed to strike a fine balance among the three mutually reinforcing objectives of growth, stability and equity.

Assault on Poverty and Unemployment

One of our greatest assets is our human resources, our people. Empowering the people, especially the poor, with universal access to education and health, and facilitating their full participation in the growth process through gainful employment, will enhance their welfare. It will also reinforce the growth process itself. This win-win strategy is the keystone of the economic policy framework of the Government.

Plan Reorientation

I have the benefit of the wise counsel of the Prime Minister, Dr. Manmohan Singh. In our scheme of things, the poor will have a first charge not only on the additional sum of Rs. 10,000 crore of GBS that I propose to provide today, but also on the entire Plan funds that the Planning Commission will reallocate.

The poor want basic education for their children: we shall provide it, and we shall make sure that the child remains in school for at least eight years. We shall also make sure that the child is not hungry while she or he is at school. The poor want drinking water: we shall ensure that every habitation has an assured source of drinking water. The poor want basic health care, medicines at fair prices and a doctor within a reasonable distance: we shall ensure that the public health system has adequate human and financial resources to provide basic medical care. The poor want jobs for their children: we shall ensure that through higher investments and through targeted intervention, jobs are available to them.

While the Planning Commission will make the final allocations, I may assure the House that crucial programmes such as Food for Work, *Sarva Shiksha Abhiyan*, Mid-day Cooked-Meal Scheme, basic health care, railway moderanisation and safety, Accelerated Irrigation Benefit Programme, drinking water, investment in agriculture, Provision of Rural Amenities in Urban Areas (PURA), roads, and science and technology, including bio-technology, will receive priority and will be provided with additional funds.

Antyodaya Anna Yojana

I propose to continue and expand, the *Antyodaya Anna Yojana*. At present, 1.5 crore families are covered. These families are provided with 35 kg. of foodgrains per family per month at a highly subsidized price of Rs. 2 per kg. for wheat and Rs. 3 per kg for rice. 20.76 lakh ton of rice and 17.48 lakh ton of wheat were distributed under the Scheme in 2003-04. In the current year, I propose to cover 2 crore families. I expect that the off-take of rice and wheat will increase. Consequently, the *Antyodaya Anna Yojana* will receive a subsidy of nearly Rs. 3,500 crore. A provision for this level of expenditure has been included in the allocation for food subsidy of Rs. 25,800 crore.

Public Distribution System

Fair price shops constitute the backbone of the food security system for the poor. We shall address the weaknesses in the system and strengthen public distribution. I shall return to this subject a little later.

Food for Work Programme

Investment and growth will create new job opportunities for our young men and women. Nevertheless, currently there is a need to ensure that unemployment does not take a heavy toll on the poor people. Work has begun on the National Employment Guarantee Act. The object is to guarantee 100 days of employment in a year to one able-bodied person in every poor household. The Bill will take into account the experience gained in Maharashtra. Government will also take care to avoid the pitfalls pointed out by responsible critics. My colleague, the Minister of Labour, expects that he would be able to introduce the Bill in Parliament shortly. Pending the enactment of the new law, I propose to launch a new Food for Work programme in 150 districts classified as most backward and identified as areas in immediate need of such a programme. Allocations under different schemes will be pulled together to support the Food for Work programme. There are substantial funds totaling over Rs. 6,000 crore under SGRY, SGSY, SJSRY, REGP and PMRY. Depending on the demand for such work, more funds will be allocated in the current year. I expect to increase the allocations substantially over the next four years. Special care will be taken in laying down the guidelines for the programme so that the money and labour expended result in durable and visible assets benefiting the whole community.

Scheduled Castes and Scheduled Tribes

The welfare of the Scheduled Castes and Scheduled Tribes is close to my heart. The allocation for programmes concerning the Scheduled Castes is Rs. 1,180 crore (an increase from Rs. 1,137 crore) and for Scheduled Tribes is Rs. 1,146 crore (an increase from Rs. 1,087 crore). Other plan schemes such as SGSY, SGRY and IAY also contain specific reservations for beneficiaries belonging to the Scheduled Castes and Scheduled Tribes. The reservations range from 50 per cent to 60 per cent.

Minorities

Particular attention will be paid to the welfare, especially education, of the minorities. Hence, an additional allocation of Rs. 50 crore has been made for the National Minorities Development and Finance Corporation.

Self-Help Groups

Micro-finance initiatives are a cost-effective way to take the banking system to the poor. The Self-Help Group (SHG)—bank linkage programme, initiated in 1992, has come a long way. Until 31 March 2004, 1.67 crore families had benefited through 10.79 lakh SHGs financed by banks. While

the SHG concept will be promoted vigorously, I am of the view that matured SHGs may be in a position to graduate from consumption or production credit to starting micro-enterprises. An indicative target of credit linking 5.85 lakh SHGs during the period up to 31 March 2007 has been set for NABARD, SIDBI, banks and other agencies.

Thrust Areas

Before I deal with other areas of concern on which the Budget will have an impact, let me give you a snapshot of the goals that I have set for myself:

- Doubling agricultural credit in three years, accelerating the completion of irrigation projects and investing in rural infrastructure;
- Providing farm insurance and livestock insurance;
- Improving agricultural product markets and promoting agri-businesses;
- Drinking water for all;
- Expanding water harvesting, watershed development and minor-irrigation and micro-irrigation schemes;
- Enhancing investment in industry—public and private, domestic and foreign—to create new jobs;
- Creating space for small-scale industry to thrive and grow;
- Electricity for all;
- Universal access to telecommunication facilities;
- More housing for the poor;
- Access to medical care through health insurance; and
- Encouraging savings and protecting the savings of senior citizens;

I believe that the key to growth is investment—public and private, domestic and foreign. It is therefore my intention to considerably enhance investment in all sectors of the economy. However, fiscal prudence and financial discipline will remain the overarching objective. I shall also take into account the availability of resources and the absorptive capacity of various sectors.

Education and Health

Education

In my scheme of things, no issue enjoys a higher priority than providing basic education to all children. The NCMP mandates Government

to levy an education cess. I propose to levy a cess of 2 per cent. The new cess will yield about Rs. 4,000-5,000 crore in a full year. The whole of the amount collected as cess will be earmarked for education, which will naturally include providing a nutritious cooked mid-day meal. If primary education and the nutritious cooked meal scheme can work hand in hand, I believe there will be a new dawn for the poor children of India.

I am concerned about the quality of technical education in the country. Lest I be misunderstood, I am not referring to the IITs but to the ITIs. ITIs are the training ground for skilled manpower. The skills imparted by ITIs must keep pace with the technological demands of industry and the expanding universe of knowledge. There is only one benchmark for our technicians—and that is the world standard. In order to produce technicians of world standard, Government proposes to launch a programme in the Central sector to upgrade 500 ITIs over the next 5 years at the rate of 100 ITIs a year. Appropriate infrastructure and equipment will be provided, the syllabi will be upgraded and new trades will be introduced. This is an area where I welcome Chambers of Commerce and Industry to join hands with the Government and create a public-private partnership model for designing and implementing the scheme. The selection of the ITIs will be done in consultation with the State Governments.

An education loan scheme has been in operation since April 2001 under which loans up to Rs. 7.50 lakh and Rs. 15 lakh are available for professional courses within the country and abroad, respectively. The requirement of collateral was dispensed with for loans up to Rs. 4 lakh. I am happy to say that commercial banks have now agreed to waive the need for collateral for loans up to Rs. 7.5 lakh, if a satisfactory guarantee is provided on behalf of the student. Thus, no student admitted to any professional course, including courses in IITs, IIMs and medical colleges, will be deprived of the opportunity to study because of lack of funds.

Health

Access to medical care is not easily available to the poor. The Universal Health Insurance Scheme (UHIS) now in operation is skewed in favour of the non-poor. As a result, only a very small number of families Below the Poverty Line (BPL)—actually 11,408 till May 2004—have been covered. Although the premiums are low, BPL families seem to avoid the scheme due to their inability to pay the premium. In its present design, the scheme may not be sustainable. I, therefore, propose to redesign the scheme and make it exclusive for persons and families below the poverty line. The revised premium would be Rs. 165 for

individuals, Rs. 248 for a family of five and Rs. 330 for a family of seven, without any reduction in benefits. To offset the reduction in premium, I propose to enhance the premium subsidy from Rs. 100 at present to Rs. 200 for an individual, Rs. 300 for a family of five and Rs. 400 for a family of seven. The cost to the exchequer will be Rs. 40 crore in a full year. If the money is fully spent, the number insured will rise to about 10 lakh.

In addition to the above, I propose to introduce a new Group Health Insurance Scheme through public sector non-life insurance companies. The insured will be members of Self-Help Groups (SHGs) and other Credit Linked Groups (CLGs) who avail of loans from banks or cooperative institutions. Under the group health insurance scheme, the premium will be Rs. 120 per person, but the insurance cover would be for a sum of Rs. 10,000.

The NCMP also rightly emphasizes the need for an accelerated AIDS control programme. Bold and determined efforts need to be made to achieve zero-level growth of HIV/AIDS. These will include improved surveillance through the setting up of more sentinel sites and use of primary health centres to monitor HIV/AIDS, public awareness campaigns, promotion of safe sex through the use of condoms, prevention of drug abuse and distribution of disposable syringes. The allocation for prevention and control of HIV/AIDS is Rs. 259 crore

Agriculture and the Rural Economy

Boosting agricultural growth through diversification and development of agro-processing is one of the objectives of the NCMP. The Prime Minister, in his address to the Nation on 24 June 2004 promised a “New Deal” for rural India. This New Deal is not only essential for rural development and welfare, but also essential for achieving sustained overall annual growth of 7-8 per cent and generating employment.

The agriculture sector requires massive investments. Such investments have to be through credit-enabled private investment and enhanced public investment. I also intend to use fiscal instruments to boost investment in agriculture.

Credit

It is my intention to double the flow of agricultural credit in three years. We have made a beginning by announcing a comprehensive policy on agricultural credit on 18 June 2004. The policy has been received well and will be fine-tuned, if necessary.

Government has entrusted the implementation of the policy to the public sector and private sector banks, the Regional Rural Banks (RRBs) and the cooperative banks.

Each RRB has a sponsor bank. I propose to hold each sponsor bank squarely accountable for the performance of RRBs under its control. RRBs that adopt a new governance standard and that abide by the prudential regulations will qualify for receiving funds from the Government for their restructuring.

The third arm for delivering farm credit is the cooperative banking system. Unless cooperative banks are healthy and creditworthy, it would not be possible to reach credit to every farmer in need of credit. The situation is grave. In order to find a durable solution, I propose to appoint a Task Force to examine the reforms required in the cooperative banking system including the appropriate regulatory regime. The Task Force will be requested to act with all deliberate speed and submit its report by 31 October 2004.

Irrigation, Rural Infrastructure

The Accelerated Irrigation Benefit Programme (AIBP) was introduced in 1996-97 and was allotted large funds year after year. Yet, out of 178 large and medium irrigation projects that were identified, only 28 have been completed. The programme is being restructured. Truly last mile projects that can be completed by March 2005 will be given overriding priority and other projects that can be completed by March 2006 will also be taken up in the current year. Next year we shall move the goal-post to March 2007, the year after to March 2008, and so on. I have provided a sum of Rs. 2,800 crore to the AIBP this year.

The Rural Infrastructure Development Fund (RIDF) was established in NABARD in 1994-95. Five months ago, a decision was taken to close the RIDF and establish, in its place, another Fund with slightly different objectives. Many State Governments and many honourable Members have opposed the closure of RIDF. In deference to their wishes, and in tune with my own thinking, I have decided to revive the RIDF. RIDF's guidelines have been revised and a corpus of Rs. 8,000 crore will be provided for RIDF during 2004-05.

Restoring Water Bodies

I now turn to one of my big dreams. Water is the lifeline of civilization. We have been warned that the biggest crisis that the world will face in the 21st century will be the crisis of water. Water is indeed a renewable

resource but, in any given year, it is not inexhaustible. The crisis of water has affected the lives of millions of our fellow citizens. In some cities, whole households keep awake to receive one or two buckets of water well past midnight. In rural areas, the girl child is often pulled out of school in order to fetch water. I am deeply concerned about the impending crisis. I therefore propose an ambitious scheme. Through the ages, Indian agriculture has been sustained by natural and man-made water bodies such as lakes, tanks, ponds and similar structures. It has been estimated that there are more than a million such structures and about 5,00,000 are used for irrigation. Many of them have fallen into disuse. Many of them have accumulated silt. Many require urgent repairs.

I therefore propose to launch a massive scheme to repair, renovate and restore all the water bodies that are directly linked to agriculture. In the current year, we shall begin with pilot projects in at least five districts and we shall select at least one district in each of the five regions of the country. The estimated cost is Rs. 100 crore. Funds for the five pilot projects will be drawn from existing programmes such as SGRY, PMGJSY, DPAP, DDP and IWDP. Once the pilot projects are completed and validated, Government will launch the National Water Resources Development Project and complete it over period of 7 to 10 years.

Funds will not be a constraint for implementing the Project. For instance, Life Insurance Corporation of India invests, on an average, Rs. 3,000 crore per year in water-related programmes. I also intend to pose this Project to multilateral agencies for funding. It is my hope that by the beginning of the next decade all water bodies in India will be restored to their original glory and that the storage capacity of these water bodies will be augmented by at least 100 per cent.

Water Harvesting

Water harvesting schemes, specific to an area or village, have been found to be extremely useful. Such schemes are supported by a number of credit institutions. However, farmers belonging to the Scheduled Castes and Scheduled Tribes rarely benefit from such schemes. In order to help these farmers, Government will launch a nationwide water harvesting scheme. The scheme will cover one lakh irrigation units at an average cost of Rs. 20,000 per unit. NABARD will lend the money on easy terms and no margin money will be charged from the borrower. Government will provide a 50 per cent capital subsidy through NABARD and the estimate for the scheme is Rs. 100 crore.

Flood Control

Thousands of lives and thousands of head of cattle are lost every year due to floods. Floods are perennial in States like Assam, West Bengal, Bihar and Uttar Pradesh. The NCMP envisages full Central support to flood control works in inter-State rivers and international rivers. The Brahmaputra Board has prepared a plan for anti-erosion and flood control works in the Brahmaputra and Barak valleys. A programme of flood control and anti-erosion will be launched in the current year. A similar programme is being implemented in the Ganga-basin States of Uttaranchal, Uttar Pradesh, Bihar, Jharkhand and West Bengal. Rs. 30 crore has been allotted in the current year and additional funds will be provided to keep pace with the progress of works.

Diversification

India is self-sufficient in wheat and paddy but deficient in other agricultural produce. The time has come to encourage our farmers to diversify into areas such as horticulture, floriculture and oilseeds. The Anand model has been a great success in milk and milk products. Government proposes to launch a National Horticulture Mission. The goal is to double horticulture production from the current level of 150 million ton to 300 million ton by 2011-12. I invite States to join hands with the Government in launching this mission. One of the steps that States will be encouraged to take is to emulate the Anand model and establish a State Level Cooperative Society for promoting horticulture.

Oilseeds is another critical area. Last year, we produced 25 million ton of oilseeds, but we also imported US$ 2.5 billion of edible oil. Government will facilitate farmers to diversify into oilseeds by promoting superior seed-technology and through an appropriate policy of price support.

India must become a single market for all products, particularly agricultural produce. The existing Acts governing agricultural produce marketing committees have outlived their utility. The Government has circulated a model law. So far, ten States have initiated legal or administrative action for 'direct marketing' and 'contract farming' arrangements in line with the model law. I urge all States to enact the model law at an early date.

Research and Development

Agricultural research and development is an area which deserves special attention. The Indian Council of Agricultural Research (ICAR) is a beneficiary of the scheme under which every commercial rupee earned by ICAR, incrementally, is matched by another rupee from the Budget. Besides, ICAR receives funds from the Technology Development Board

in respect of projects that are commercially viable. Agricultural research must be expanded rapidly to new frontiers such as bio-technology, vaccines and diagnostics. There must be a special focus on farming in drylands and unirrigated areas. The allocation for 2004-05 is Rs. 1,000 crore (which is an increase from Rs. 775 crore in BE 2003-04), and I propose to make further allocations during the course of the year.

Agri-business

The Small Farmers Agri-business Consortium (SFAC) was set up in 1994. Although SFAC started functioning from 1998, its corpus stands at a meagre Rs. 10.95 crore. In my view, SFAC should provide venture capital to projects and must be run, preferably by a banker, on purely business lines. The MS Swaminathan Research Foundation has identified 13 districts where there is a huge potential for agri-businesses and an appetite for investment of nearly Rs. 170 crore. The Ministry of Agriculture has initiated action to improve the governance of SFAC, including the appointment of a banker as the chief executive. For my part, I propose to provide the necessary additional capital that SFAC will require to aggressively promote agri-businesses.

Risk Mitigation

The Agricultural Insurance Company (AIC) was incorporated in December 2002. The National Agricultural Insurance Scheme (NAIS) which insures the yield or crop is in operation since *Rabi* 1999-2000. AIC is redesigning the scheme. We shall continue with the scheme and make another evaluation. Meanwhile, a pilot scheme insuring farm income (as opposed to crop) has been launched in 19 districts across 12 States during *Rabi* 2003-04. Government has decided to extend the scheme to *Kharif* 2004 in order to assess its feasibility. I wish to add that a weather insurance scheme appears to be more promising, at least in the design. AIC is introducing the scheme on a trial basis in 20 rain gauge stations in the current crop season. It is difficult to tell at this stage which of the three schemes will be successful. Agricultural insurance as well as livestock insurance are complex products and have to be designed with care. I wish to re-affirm Government's commitment to provide insurance cover to farming and livestock.

Infrastructure

Sustainable growth depends upon the availability of efficient infrastructure. Government is committed to removing the inadequacies in infrastructure facilities through a mix of policy and fiscal measures.

Inter-Institutional Group

An Inter-Institutional Group in the power sector has succeeded in bringing 6 power projects to financial closure. Another 10 projects are on the verge of achieving financial closure. The concept can be extended to some other infrastructure sectors. I am glad to announce that IDBI, IDFC, ICICI Bank, SBI, LIC, Bank of Baroda and Punjab National Bank have formed an Inter-Institutional Group (IIG). They will pool their resources on a callable basis and a sum of Rs. 40,000 crore will be made available as and when necessary. The IIG will ensure speedy conclusion of loan agreements and implementation of infrastructure projects. Initially, airports, seaports and tourism will be the target sectors of the IIG.

Water Supply

The Rajiv Gandhi Drinking Water Mission was intended to be implemented in the mission mode. In recent years, however, new programmes have sprung up obscuring the original mission. More than 75,000 habitations are yet to be provided adequate drinking water. Government intends to bring all drinking water schemes under the umbrella of the Rajiv Gandhi Drinking Water Mission.

The Accelerated Rural Water Supply Progamme (ARWSP) has been allocated Rs. 2,610 crore in the current year. It will focus on renewal of water sources and on serving uncovered and partially covered habitations. Panchayati Raj institutions will be encouraged to plan, implement, own, operate and maintain the rural water supply schemes in consultation with the State Governments. Funds will be devolved on Panchayati Raj institutions to implement the ARWSP.

Likewise, the Urban Water Supply Programme is in operation in urban areas. 2,151 towns qualify for consideration under the programme. In the current year a provision of Rs. 151.25 crore has been made.

The city of Chennai and other cities suffer from acute scarcity of drinking water. It is proposed to install the first large desalination plant near Chennai in the State sector, and more such plants will be installed along the Coromandel coast. A desalination plant with a capacity of 300 million litres per day (MLD) is estimated to cost Rs. 1,000 crore and there will be other costs for transmission pipelines and a captive power plant. It is proposed to implement the project through public-private partnership.

Sethusamudram Ship Canal Project

The Sethusamudram Ship Canal Project is a longstanding demand—nay dream—of the people of peninsular India. I am happy to inform the

House that the Environmental Impact Assessment study of the project has been completed by the National Environmental Engineering Research Institute (NEERI), Nagpur. NEERI is now preparing the techno-economic feasibility report and the report is expected to be submitted shortly. The Ministry of Shipping proposes to establish a Special Purpose Vehicle (SPV). The SPV will raise funds for the project and Government will participate in the funding through a mix of equity support and debt-guarantee.

International Container Transshipment Terminal (ICTT) at Vallarpadam

Government attaches high priority to the development and expansion of port infrastructure. Presently, because of inadequate draft and cargo handling infrastructure and partly due to locational disadvantages, mainline vessels often skip Indian ports. Containers from India are carried to their final destination after transshipment at Colombo, Dubai and other neighbouring ports. Kochi has locational advantages compared to other major Indian ports since it is closer to the main sea routes. Government will facilitate the construction of an International Container Transshipment Terminal (ICTT) at Vallarpadam in Kochi port on Build, Operate and Transfer (BOT) basis.

Rural Housing

Indira Awas Yojana (IAY) has been the main instrument to provide housing to Scheduled Castes and Scheduled Tribes as well as to the non-SC/ST rural poor. Built into IAY is a credit-cum-subsidy scheme for rural households. A subsidy upto Rs. 10,000 and loan upto Rs. 40,000 are provided to eligible households. The allocation for IAY in BE 2003-04 was Rs. 1,710 crore. In the current year, I propose to raise the allocation to Rs. 2,247 crore and, if more money is needed, it will be found within the enhanced Plan outlay.

In order to complement IAY, the Golden Jubilee Rural Housing Finance Scheme was launched in August 1997 to give a boost to rural housing. The response has been encouraging and 10.26 lakh dwelling units have been financed so far. However, the number appears to have stagnated at about 180,000 per year in the last three years. The scheme deserves a further stimulus. I am happy to announce that the National Housing Bank has offered to reduce the rate of refinance by 25 basis points this year. RBI has agreed to revise the norms of re-payment for rural housing loans by banks, so that the instalments coincide with crop cycles. A major impediment to credit for rural housing is absence of proper title

to the land. The Government of West Bengal has made a law to simplify the creation of security. It appears to me that the law deserves to be emulated by other States. With these changes, I believe it is possible to set a higher target of 2,50,000 rural housing units per year.

Industry

It is my goal to make the environment in India attractive for investors. In order to achieve that goal, I propose to establish an Investment Commission. The Commission will have the broad authority of the Government to engage, discuss with and invite domestic and foreign businesses to invest in India. It will be chaired by an eminent person. The Foreign Investment Promotion Board (FIPB) has played a useful role and even now it serves as a one-stop centre for securing the nod of different ministries and departments to a proposed investment. Government believes that many of the functions of FIPB could be put on the automatic route and leave FIPB as a one-stop service centre and facilitator. The function of wooing domestic and foreign investors will be performed by the proposed Investment Commission.

Government proposes to set up a National Manufacturing Competitiveness Council. The Council will be a continuing forum for policy dialogue to energise and sustain the growth of manufacturing industries. The Council will be asked to suggest measures for enhancing competitiveness in the manufacturing sector. The Council may also recommend industry-specific or sector-specific policy initiatives to enhance competitiveness.

Foreign Direct Investment (FDI) has the potential to add a competitive edge, especially in the industrial sector. The NCMP declares that FDI will continue to be encouraged and actively sought, particularly in areas of infrastructure, high technology and exports. Three sectors of the economy fully meet this description. They are telecommunications, civil aviation and insurance. There is an urgent need for infusing huge amounts of capital in these sectors. I, therefore, propose to raise the sectoral cap for FDI in telecommunications from 49 per cent to 74 per cent; in civil aviation from 40 per cent to 49 per cent; and in insurance from 26 per cent to 49 per cent.

Capital Markets

Government is committed to the orderly development and functioning of the capital markets. A number of steps have been taken to broaden

and deepen the capital markets as well as to strengthen the regulatory regime. There are some signs that retail investors are returning to the capital market. Foreign Institutional Investors (FIIs) have shown a marked preference for India over other emerging markets. In order to carry forward the process of making the Indian capital market strong and attractive, I propose to—

- Make the procedures for registration and operations simpler and quicker for FIIs;
- Raise the investment ceiling for FIIs in debt funds from US$ 1 billion to US$ 1.75 billion;
- Allow banks with strong risk management systems greater latitude in their exposure to the capital market;
- Create an alternative trading platform for small and medium enterprises (SMEs) to raise equity and debt from the capital market; and
- Initiate steps to integrate the commodities markets and the securities markets.

RBI and SEBI will announce the necessary measures in respect of these matters. I am also happy to announce that SEBI has been able to resolve the longstanding issue of brokers' fees and brokers may expect an announcement shortly.

Many genuine Foreign Institutional Investors (FIIs) are professional bodies of asset managers and financial analysts who can enhance the flow of equity capital and lend depth to the capital markets. An inter-ministerial committee has recommended liberalization of FII limits in certain specified sectors. I propose to examine and implement these recommendations in consultation with the Ministries concerned.

Public sector

The NCMP has declared the Government's policy on Public Sector Enterprises (PSEs). While sick or ailing public sector enterprises have stirred a debate, not enough attention is paid to the healthy PSEs. I am happy to announce that in 2004-05 the Government will provide equity support of Rs. 14,194 crore and loans of Rs. 2,132 crore to Central PSEs (including Railways). Major investments will be made in PSEs falling in the sectors of power, telecommunications, railways, roads, petroleum, coal and civil aviation. I am sure Hon'ble Members will appreciate the deep commitment of Government to a strong and effective public sector operating in a competitive environment.

There is, of course, another side to the public sector. This side is beset with problems and we must address them with responsibility and courage. Disinvestment and privatization are useful economic tools. We will selectively employ these tools, consistent with the declared policy. As a first step, I propose to establish a Board for Reconstruction of Public Sector Enterprises (BRPSE). The Board will advise the Government on the measures to be taken to restructure PSEs, including cases where disinvestment or closure or sale is justified.

One of our *Navaratna* companies, NTPC, has filed a prospectus with SEBI to raise capital through a public issue. Consequently, Government's holding in NTPC will be marginally diluted. In order to extract value for its holding and to compensate the effect of dilution, Government intends to piggy-back on the public issue of NTPC and disinvest approximately five per cent of its holding. This and some other cases which are under examination are expected to yield a sum of Rs. 4,000 crore in the current year. While the disinvestment revenues will be part of the Consolidated Fund of India, I shall, while presenting the Budget for 2005-06, report to the House the manner in which the said revenues have been or will be applied for specified social sector schemes.

The NCMP contains clear policy guidelines regarding disinvestment in PSEs. As long as Government retains control over the PSE and its public sector character is not affected, Government may dilute its equity and raise resources to meet the social needs of the people. I propose to ask the BRPSE to examine each case objectively and make recommendations on disinvestment, consistent with the NCMP.

I am also happy to announce that I have taken the business of restructuring quite seriously. Hindustan Antibiotics Limited will be given financial support for restructuring. A rescue package has been worked out for Indian Telephone Industries (ITI), and ITI will be given Rs. 508 crore to remain out of the net of the BIFR.

Small Scale Industry

Small scale industry is and must be regarded as, an engine of growth. At the same time SSI units must also be given the space to grow into medium enterprises. World over, policies are devised to meet the requirements of Small and Medium Enterprises (SME). Keeping in mind the twin objectives, the Ministry of Small Scale Industry has identified 85 items that can be safely taken out of the reserved list. Furthermore, it is felt that technology upgradation of SSI units is the most urgent

requirement to do business in a competitive environment. I have reviewed the Capital Subsidy Scheme and I propose to raise the ceiling for loans under the scheme from Rs. 40 lakh to Rs. 1 crore. The rate of subsidy will also be raised from 12 per cent to 15 per cent. The scope of the scheme will be enlarged by adding more sub-sectors and technologies eligible for assistance. SSI units will be encouraged to obtain credit rating. With these measures, I expect that many more SSI units will benefit from the restructured scheme. A provision of Rs. 135.24 crore has been made for "Promotion of SSI Schemes" and within that amount funds will be found for the Capital Subsidy Scheme.

Regeneration of traditional industries

Some of our traditional industries, namely coir, handloom, handicrafts, sericulture, leather, pottery and other cottage industries not only contain great potential for growth and exports, but are integral for the maintenance of our cultural heritage. Accordingly, a Fund for the Regeneration of Traditional Industries, with an initial allocation of Rs. 100 crore will be set up. The details, including mechanism for utilization of the fund will be worked out in consultation with the industries concerned.

Other Proposals

VAT

Value-added tax is a tax that has been tested and tried, and found beneficial throughout the world. The country needs a modern and efficient trade tax system that incorporates the international best practices. At the 18 June 2004 meeting of the Empowered Committee of State Finance Ministers, to which all Finance Ministers were invited and chaired by my distinguished friend Dr. Asim Das Gupta, there was a broad consensus among the States to implement VAT. 1 April 2005 has been set as the date for implementation. I welcome the decision and warmly congratulate the State Governments. I urge all States that have not yet passed the relevant VAT legislation to do so before the end of 2004. International experience, as well as the experience of the State of Haryana, suggests that VAT will lead to an increase in revenue and not a loss in revenue. Nevertheless, in order to give comfort to the States, I propose to evolve a formula for determining the compensation for the loss of revenue, if any. I have offered the States the services of a Technical Experts Committee. The Committee will work with the States closely and help them move steadily towards the stage of implementation.

Pension Reform

A 'defined contribution' pension scheme has been introduced with effect from 1 January 2004 for the Central Government employees recruited on or after that date. A suitable legislation to provide a regulatory framework for the scheme will be introduced in Parliament.

Export promotion

My colleague, the Minister of Commerce and Industry, will place before Parliament by the end of this month a new trade policy. Government is of the view that Special Economic Zones (SEZs) are growth engines that can boost manufacturing, exports and employment. The private sector has shown considerable interest in the development of SEZs. Five SEZs have started functioning. SEZs require a special fiscal and regulatory regime. The Commerce Minister will, shortly, introduce a Bill for regulating Special Economic Zones and it is my belief that the passing of such a law would be a significant milestone in our quest to become a major hub for manufacturing and exports.

Securitisation Act

The constitutional validity of the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 has been upheld by the Supreme Court, except sub-Section (2) of Section 17. In the wake of this judgement, many banks have pointed out practical difficulties likely to arise in speeding up the recovery of non-performing assets. It is proposed to amend the relevant provisions of the Act to appropriately address the Supreme Court's concerns regarding a fair deal to borrowers while, at the same time, ensuring that the recovery process is not delayed or hampered. Related amendments to the Recovery of Debts Due to Banks and Financial Institutions Act, 1993, if necessary, will also be made.

Interest Rates

The Central Government has saved considerably on interest on fresh borrowings because of moderate interest rates. The States were also able to borrow at lower rates and swap old high cost loans. Since 2002, States have benefited to the extent of nearly Rs. 2,500 crore through the debt swap scheme. While borrowers are benefited by moderate interest rates, there is a need to boost savings and to protect the savers. I am convinced that, in the larger interests of the country, we should maintain a benign interest rate regime that appropriately balances the legitimate claims of the savers and borrowers.

I believe that all interest rates should be aligned to the market, save for one or two exceptions. There is a need for a savings instrument that will give a return to senior citizens which is above the market-determined rate. There is also a need for an instrument that will provide a risk-free avenue for all citizens to save for a longer term and such an instrument should bear a slightly higher rate of interest. Balancing these considerations, I do not propose to make any change in the existing rates of interest on small savings instruments. Consequently, PPF, GPF and the Special Deposit Scheme will attract 8 per cent interest this year. For senior citizens, I propose to introduce a new scheme called the Senior Citizens Savings Scheme offering an interest rate of 9 per cent per annum. For all other citizens, I propose to continue the Government Savings bond which will carry an interest rate of 8 per cent per annum. The *Varishta Pension Bima Yojana* may no longer be necessary since the new savings scheme will cover the senior citizens adequately.

Reform of Public Distribution System

In the Tenth Plan document, the Planning Commission had suggested that a system of distributing food stamps should be tested on a pilot basis. Every eligible family will be entitled to collect its monthly quota of food stamps from a designated distribution centre and such stamps could then be used to buy foodgrains from any food shop. I propose to introduce a pilot scheme for distributing food stamps, instead of distributing food through fair price shops, in two or three contiguous districts in a selected State. I sincerely hope that one of the States will come forward to associate with the Central Government in this experiment.

Gender budgeting

Women's groups have met me and urged me to consider gender budgeting. This means that the budget data should be presented in a manner that the gender sensitivities of the budgetary allocations are clearly highlighted. An expert group on "Classification System of Government Transactions" has submitted its report on 6 July 2004. It has recommended appropriate systems for data collection and representation in the Budget. The group has also recommended introduction of periodic benefit incident analysis. Government will examine the recommendations and I hope it will be possible for me to implement some of them in the Budget for 2005-06.

Subsidies

Seven years ago, I placed before Parliament the first paper on subsidies. The NCMP pledges that all subsidies will be targeted sharply

at the poor and truly needy like small and marginal farmers, farm labour and the urban poor. I have asked the National Institute of Public Finance and Policy (NIPFP) to prepare a blue print to accomplish these objectives. I expect to place the report before the House in the next session of Parliament.

States' Finances

In order to support the States, a substantial proportion of the taxes raised by the Central Government is transferred to the States. Besides, the Central Government extends loans to the States. In the light of the Budget Estimates for the current year, I am happy to report that the States' share of Union taxes and duties will increase to Rs. 82,227 crore from Rs. 63,758 crore in BE 2003-04. We are helping the States in other ways too. One of them is the Debt Swap Scheme. I propose to extend the facility of debt swap by allowing States to raise fresh loans and repay their old high-cost loans to NABARD and some other agencies. I also propose to consult the States on allowing them to increase their open market borrowings and reduce their dependence on loans from the Central Government. I shall also consider passing on external loans to the States on a back-to-back basis.

We are moving in the direction of empowering the States through devolution of larger resources. It is my fervent hope that States will accept the obligation to observe fiscal prudence and financial discipline.

Loans given by the Central Government to States carried an interest rate of 12.5 per cent. In 2003-04, the rate was reduced to 10.5 per cent. I am happy to announce a further reduction. Loans to the States will now bear an interest rate of 9 per cent with effect from 1 April 2004. States are expected to benefit to the tune of Rs. 375 crore this year alone.

Special Economic Packages

The NCMP promises that special economic packages for Bihar, Jammu & Kashmir and the North Eastern States, announced in the past, will be implemented expeditiously. Bihar, for example, has a number of projects pending for a long time, including projects in power, roads, drainage and rehabilitation of displaced persons. I would like to assure the House that Bihar will be assisted through the *Rashtriya Sam Vikas Yojana*. A provision of Rs. 3,225 crore has been made for the present and, if necessary, this sum will be augmented.

North Eastern Region (NER)

The Government is committed to the speedy development of the North-Eastern States and Sikkim. Accordingly, all Ministries and

Departments have been mandated to allocate at least 10 per cent of their Plan budget for schemes and programmes in the NER. This amounts to an allocation of Rs. 5,823 crore to be spent in the NER. The amount remaining unspent from this 10 per cent allocation is transferred to a non-lapsable Central pool of resources for development of the NER. In the current year, Rs. 650 crore have been provided from the Central pool of resources for specific projects and schemes in this region, up from Rs. 550 crore in 2003-04.

Jammu & Kashmir

The Government will provide special assistance to the State of Jammu & Kashmir to have a reasonable Plan size. It will also provide financial support for the long pending Baglihar project. The Government has also agreed to provide a grant of Rs. 300 crore to the State to ensure smooth switch-over from the current overdraft arrangement with the Bank of Jammu & Kashmir to the Ways & Means scheme of the RBI.

Backward States' Commission

NCMP envisages the creation of a Backward States Grant Commission to be used for creating productive assets in such States. It also envisages that all non-statutory resource transfers from the Central Government will be weighed in favour of poor and backward States, but with performance parameters as well.

I am happy to announce that the Government will set up a Backward States Grant Fund with a corpus of Rs. 25,000 crore to be provided over a period of five years. While the existing Backward Districts Initiative Scheme with an annual outlay of about Rs. 1,800 crore will be merged into this Grant Fund, the balance amount required for the annual contribution of Rs. 5,000 crore will be earmarked from out of the total Central support to the Plan. It is expected that this will enable taking up social and physical infrastructure programmes in the poorest and most backward districts in the country within a given time frame. The Fund will become operational from the financial year 2005-06. Further details will be worked out in consultation with the Planning Commission.

Defence modernization

As promised in the NCMP, the Government is determined to eliminate all delays in the modernization of the Defence Forces. Having regard to the trend of defence capital expenditure in recent years, it has become necessary to make a higher allocation this year. Accordingly, I propose

to increase the allocation for Defence to Rs. 77,000 crore (as against Rs. 65,300 crore in BE 2003-04) which includes an allocation for capital expenditure of Rs. 33,483 crore (as against Rs. 20,953 crore in BE 2003-04).

Budget Estimates for 2004-2005

Now, I turn to the budget estimates for the current year.

Plan expenditure

While preparing the Budget, I found that there is a plethora of Plan schemes. The number, the variety and even the acronyms under which these schemes are known are mind-boggling. I also found that there are many schemes with more or less the same objectives. In some cases, all the schemes were located in one ministry or department; in other cases, they were distributed among different ministries or departments. Plan schemes can be broadly divided into three categories—Central Sector, State Sector and Centrally Sponsored Schemes. The NCMP requires that all Centrally Sponsored Schemes, except national priority areas like family planning, shall be transferred to the States. Fortunately, a new Planning Commission is in place and I am confident that the Planning Commission will bring some order into the tangled web of schemes.

Plan expenditure for 2004-05 is estimated at Rs. 1,45,590 crore as against Rs. 1,22,149 crore in the provisional actuals for 2003-04. While there is an increase in plan revenue expenditure from Rs. 78,537 crore in 2003-04 to Rs. 91,843 crore, there is an even sharper and welcome increase in plan capital expenditure from Rs. 43,612 crore in 2003-04 to Rs. 53,747 crore.

Non-plan Expenditure

Non-plan expenditure in 2004-05 is estimated to be Rs. 3,32,239 crore, lower than Rs. 3,49,787 crore in the provisional actuals for 2003-04 which includes capital expenditure of Rs. 46,211 crore on repayment to the National Small Savings Fund. The increase in non-plan expenditure from the interim Budget is mainly on account of capital expenditure in defence (Rs. 11,000 crore), and assistance to Indian Telephone Industries Ltd.

Revenue Deficit and Fiscal Deficit

Mr. Speaker, Sir, in the Budget Estimates for 2004-05, the total expenditure is estimated at Rs. 4,77,829 crore, of which Rs. 1,45,590 crore is for Plan and Rs. 3,32,239 crore for non-Plan. I estimate total

revenue receipts of the Central Government at Rs. 3,09,322 crore and the revenue expenditure at Rs. 3,85,493 crore. Consequently, the revenue deficit is estimated at Rs. 76,171 crore equivalent to 2.5 per cent of GDP, which is one percentage point below the corresponding estimate of 3.5 per cent of GDP in 2003-04 (according to the provisional actuals). The fiscal deficit is estimated at Rs. 1,37,407 crore, which is 4.4 per cent of the estimated GDP.

PART B

Tax Proposals

I shall now deal with my tax proposals.

Taxation is a key tool of fiscal policy. The NCMP has promised that "tax rates will be stable and conducive to growth, compliance and investment". Thanks to policies initiated in the 1990s, direct tax rates are now moderate and require only fine tuning from time to time. Indirect taxes have also been moderated through a calibrated reduction in customs and excise duties. The proportion of direct tax revenues to GDP has increased from 1.9 per cent in 1990-91 to 3.8 per cent in 2003-04. As expected, the proportion of indirect tax revenues to GDP has declined from 7.9 per cent in 1990-91, but the decline has been rather sharp with the proportion at 5.3 per cent in 2003-04. The weak spot is central excise. Excise revenues are stuck, rather stubbornly, at around 3.3 per cent of GDP. While reduction in excise duty rates partly accounts for this situation, the expansion of the manufacturing industry ought to have given us larger revenues.

Through my policies on taxation, I wish to signal that we remain committed to moderation and stability in tax rates; that we remain committed to increasing revenues from direct taxes and excise duties; and that we remain committed to expanding the service tax net because the services sector accounts for 51 per cent of GDP. I shall also use tax policies to provide incentives to certain kinds of investment and to influence certain kinds of behaviour in the market.

I am a votary of tax reforms but it would be unwise on my part to attempt to do tax reform in a hurried or piece-meal manner. Seven months from now there will be another Budget and there will be an occasion to visit the subject of tax reform.

Direct taxes

I shall begin with my direct tax proposals. Let me give you the good news first. No one with a taxable income of Rs. 1,00,000 will be required to pay any income tax any more. It was not easy to reach this decision.

While the tax rates are moderate, it is the tax slabs which cause concern. However, I am unable to alter the tax slabs because I cannot afford to lose a large amount of revenue at a time when the Government has assumed a larger responsibility for investment and welfare programmes. Out of nearly 3.4 crore persons filing income tax returns, only 2.7 crore assessees are taxpayers. My proposal will give relief to 1.4 crore assessees. The method that I have adopted is somewhat novel. While everyone will file his return according to the current tax slabs and tax rates, and compute his taxable income and the tax payable, anyone with a taxable income of Rs. 1,00,000 will have his income tax liability automatically rebated. I cannot give more relief, or relief across the Board, in this Budget. If compliance improves, I promise to revisit the subject.

I propose to give relief to certain sections of deserving tax payers. Accordingly, I propose to exempt from income tax the family pension received by widows, children and nominated heirs of members of the armed forces and the paramilitary forces killed in the course of operational duties. This is my humble salute to their supreme sacrifice.

I propose to extend the benefit of Section 80DD and Section 80U in respect of persons suffering from autism, cerebral palsy and multiple disability.

Farmers have brought to my notice that agricultural land situated in certain urban agglomerations fall under the definition of capital asset and the compensation for acquisition of such land is subjected to capital gains tax. Such compensation deserves to be exempted from capital gains tax. I propose to do so in cases where the compensation or the enhanced compensation has been received on or after 1 April 2004.

A new 'defined contribution' pension scheme for new entrants into Central Government service has come into effect from 1 January 2004. The tax treatment of contributions made to the scheme has engaged the attention of Government. I propose to adopt the universally accepted formula of EET: that is, the contributions will be excluded from income for tax purposes; the accruals will also be exempt from tax; and only the terminal benefits will be taxed at the applicable rate in the year of receipt.

I propose to withdraw a few exemptions which have outlived their utility. Interest earned from a Non-Resident (External) Account and interest paid by banks to a Non-Resident or to a Not-Ordinarily Resident on deposits in foreign currency will not be exempt from tax. Similarly, any payment made by an Indian company to acquire an aircraft or an aircraft engine on lease from a foreign state or a foreign enterprise will not be exempt from tax. These exemptions will cease prospectively from 1 September 2004.

Hon'ble Members are aware that I abolished the gift tax in 1997. That decision remains, but a loophole requires to be plugged to prevent money laundering. Accordingly, purported gifts from unrelated persons, above the threshold limit of Rs. 25,000, will now be taxed as income. Gifts received from blood relations, lineal ascendants and lineal descendants, and gifts received on certain occasions like marriage will continue to be totally exempt.

In order to promote agro-processing industries, I propose to amend Section 80IB of the Act to allow a deduction of 100 per cent of profits for 5 years and 25 per cent of profits for the next 5 years in the case of new agro-processing industries set up to process, preserve and package fruits and vegetables.

Investment in the manufacturing sector deserves the Government's attention. Hence, I propose to continue with the additional depreciation of 15 per cent allowed under Section 32(1)(iia) on new plant and machinery acquired or installed in an existing undertaking; however, the required increase in installed capacity will now be 10 per cent and not 25 per cent.

The automobile sector has done well and needs to be encouraged. I, therefore, propose to notify the automobile industry as an industry entitled to 150 per cent deduction of expenditure on in-house R&D facilities.

The power sector also deserves tax concessions. The Electricity Act, 2003 envisages unbundling of generation, transmission and distribution. In order to promote renovation and modernization of existing transmission and distribution lines, I propose to extend the benefit under Section 80IA to projects undertaken during the period 1 April 2004 to 31 March 2006.

The shipping industry has demanded the levy of a tonnage tax to make it intentionally competitive. Tonnage tax will also induce more ships to fly the Indian flag. I propose to accept the request. Consequently, the concessional regime under Section 33AC will be withdrawn and shipping companies will now have only an option to pay the tonnage tax or normal corporate tax on profits.

I propose to extend the benefit of Section 80IB to new hospitals with 100 beds or more set up in rural areas. Such hospitals will be entitled to a 100 per cent deduction of their profits for a period of five years.

The housing industry enjoys certain benefits under Section 80IB for projects approved before 31 March 2005. I propose to extend the time limit to 31 March 2007.

A small problem has plagued the reconstruction and development of existing buildings under approved plans in the city of Mumbai. Perhaps the problem is there in some other cities too. I, therefore, propose to relax the condition of minimum plot size of one acre in the case of housing projects, as long as the projects are implemented in accordance with a scheme for reconstruction or development approved by the Central or State Government.

Capital gains tax is another vexed issue. When applied to capital market transactions, the issue becomes more complex. Questions have been raised about the definitions of long-term and short-term, and the differential tax treatment meted to the two kinds of gains. There are no easy answers, but I have decided to make a beginning by revamping taxes on securities transactions. Our founding fathers had wisely included entry 90 in the Union List in the Seventh Schedule of the Constitution of India. Taking a cue from that entry, I propose to abolish the tax on long-term capital gains from securities transactions altogether. Instead, I propose to levy a small tax on transactions in securities on stock exchanges. The rate will be 0.15 per cent of the value of security. Thus, a transaction involving securities valued at, say, Rs. 1,00,000 will now bear a small tax of Rs. 150. The tax will be levied on the buyer. In the case of short-term capital gains from securities, I propose to reduce the rate of tax to a flat rate of 10 per cent. My calculation shows that the new tax regime will be a win-win situation for all concerned.

I propose to make a change in the tax on dividends distributed by mutual funds. Equity-oriented mutual funds will continue to be exempt from tax. Debt-oriented mutual funds are now required to withhold 12.5 per cent of the income distributed to unit holders. Individuals and HUF unit holders will continue to enjoy the benefit of this rate. However, in the case of corporate unit holders, I propose a rate of 20 per cent. I am sure corporates will understand, because I am doing no more than partially closing a window of arbitrage opportunity.

I propose to put an end to bonus-stripping and dividend-stripping in units by making a suitable amendment to Section 94 of the Act.

I also propose some measures to widen the tax base and to plug revenue leakage. I do not wish to take the time of the House detailing each measure.

Tax deduction at source (TDS) and tax collection at source (TCS) are being extended to some more activities. Amendments are proposed to Section 40(a)(i) and Section 194C.

The telecom sector enjoyed certain benefits under Section 80IA for services commenced before 31 March 2004. Pending a detailed examination of the needs of the telecom sector, I propose to extend the terminal date to 31 March 2005.

Companies carrying on scientific research and development and approved by the Department of Scientific and Industrial Research before 1 April 2004 are entitled to 100 per cent deduction of profits for 10 years. On the request of the Department of Bio-Technology and pending a detailed examination, I propose to extend the terminal date to 31 March 2005.

New industrial undertakings in Jammu & Kashmir enjoyed 100 per cent tax exemption if they commenced production before 31 March 2004. Pending a detailed examination of the incentives required to promote industrial development in Jammu & Kashmir, I propose to extend the date to 31 March 2005.

Indirect taxes

Now, I turn to my indirect tax proposals. The policy signal that needs to be reiterated is that customs duties will be brought down in a measured way. It is my intention to align India's tariff structure to those of ASEAN countries. Eventually, there should be a uniform rate of tax on goods and services. During the last four years, my predecessors had adjusted excise duties and moved them towards a Central VAT rate. That process must continue. The most important goods in the manufacturing sector must therefore bear an excise duty of 16 per cent.

Another principle that requires to be emphasized is that where an excise duty is levied, subject to only a few exceptions, like goods when imported should attract an equivalent countervailing duty (CVD). In my tax proposals, I have, therefore, removed the exemption from CVD enjoyed by some imported goods where there is no corresponding exemption from excise duty on Indian made goods.

I may also point out that customs tariffs and excise duties are inter-related. While considering the tax regime for any sector, one must look at both customs duties and excise duties applicable to that sector.

The peak rate of customs duty was reduced to 20 per cent in January 2004. I propose to maintain the peak rate for the rest of the current fiscal year.

I shall now deal with specific sectors beginning with metals, minerals and industrial raw materials. Steel is the leading metal. Normally, it should bear an excise duty of 16 per cent. However, in February this year, excise duty on steel was reduced from 16 per cent to 8 per cent, but with the caveat that the decision will be reviewed when the regular budget is presented. Belying expectations, steel prices have not moderated but have risen sharply. I propose to reduce the customs duty on

non-alloy steel from 15 per cent to 10 per cent and to increase the excise duty on steel from 8 per cent to 12 per cent so that the countervailing duty will also be applicable to imports. I hope to recoup some of the revenue losses since February 2004.

Alloy steel, copper, lead, zinc and base metals are basic raw materials used in a variety of industries. I propose to reduce the peak rate on such metals to 15 per cent. I also propose to reduce the customs duties on refractory raw minerals and mineral products like graphite, asbestos, mica and gypsum to 15 per cent. The customs duty on all catalysts will also be 15 per cent.

I propose certain concessions to the agriculture sector. To encourage value addition, while retaining customs duty on crude palm oil at 65 per cent, I propose to accept the recommendation of the Tariff Commission and increase the duty on refined palm oil to 75 per cent.

Some items of plantation machinery attract a customs duty of 5 per cent. I propose to extend the concessional rate to more items pertaining to the tea and coffee plantation sector.

On the excise front, I propose to make a number of concessions. Tractors attract an excise duty of 16 per cent. Hereafter, tractors will be fully exempt. Likewise, dairy machinery which attracts an excise duty of 16 per cent will be fully exempt. Hand tools such as spades, shovels, sickles, etc., which currently attract a 16 per cent excise duty will also be fully exempt.

Excise duty on preparations of meat, poultry and fish will be reduced from 16 per cent to 8 per cent and excise duty on food grade hexane (used in the edible oil industry) will be reduced from 32 per cent to 16 per cent.

I propose to give some concessions to the health sector. A number of items for the disabled are already exempt from import duties or attract a concessional duty of 5 per cent. I propose that rehabilitation aids such as talking books, braille computer terminals, braille writers and typewriters, assistive listening devices, cochlear implants and stair lifts be fully exempt from customs duty. They will also be exempt from excise duty and CVD. Crutches, wheel chairs, walking frames, artificial limbs, etc. for the disabled will also be fully exempt from customs duty. There are some restrictions on institutions for the visually-impaired and the hearing-impaired availing of import duty exemptions. I propose to remove these restrictions as well as enlarge the list of exempted appliances. Ambulances used by Government and municipal hospitals alone have been allowed the concessional excise duty of 16 per cent. I propose that all ambulances registered as such will be entitled to this benefit. Diagnostic kits for detecting hepatitis B alone are exempt from excise duty. I propose to extend the exemption to kits for detection of all types of hepatitis.

In order to move toward the CENVAT rate, I propose to levy excise duty on contact lenses and playing cards. I also propose to increase the excise duty from 8 per cent to 16 per cent on a few items including vaccum flasks, plastic insulated ware, scented supari, prefabricated buildings, laboratory glassware, black and white television sets, populated PCBs, imitation jewellery, candles and parts of clocks and watches. Let me hasten to add that in all these cases the general SSI exemption will continue to be available, and consumers and small manufacturers will not be affected at all. Even other manufacturers will avail of CENVAT credit.

In order to protect matches made in the non-mechanised sector, I propose to increase the excise duty on matches made in the mechanized/semi-mechanised sector from 8 per cent without CENVAT credit to 16 per cent with CENVAT credit.

The Information Technology sector has, by and large, been kept out of the reach of the tax collector. Under the Information Technology Agreement, customs duty will be brought down to zero in 2005. Meanwhile, I propose to abide by the bound rates under the agreement.

I propose to exempt specified raw materials for manufacture of parts of cathode ray tubes and specified capital goods for manufacture of mobile handsets, plasma display panels, etc. from excise duty. Specified items for manufacture of telecom grade optical fibres and cables are also proposed to be exempt from customs duty. Mobile switching centres imported by cellular mobile telephone service providers are now exempt from customs duty. I propose to extend the exemption to imports by universal access service providers.

Computers attract excise duty of 8 per cent. I propose to grant full exemption.

I propose to give some excise relief to LPG gas stoves bearing an MRP up to Rs. 2000, footwear with MRP upto Rs. 250 and writing instruments with MRP upto Rs. 200.

I propose to reduce the excise duty on amusement rides from 20 per cent to 10 per cent.

Having been Commerce Minister, export promotion is close to my heart. I propose to extend the concessional customs duty of 5 per cent on capital goods enjoyed by the leather industry to the non-leather footwear industry too.

Finished leather of all kinds is exempt from customs duty. I propose to exempt patent leather also.

Platinum is a serious challenger to gold in the jewellery industry. Both should be treated alike. Hence, I propose to reduce the import duty on platinum from Rs. 550 per 10 grams to Rs. 200. I propose that rough

coloured precious gemstones should be exempt from customs duty just as rough semi-precious stones are.

Area specific exemptions from excise duty have been granted from time to time. The North-Eastern States and J&K are in a class by themselves. The exemptions enjoyed by them will continue. Sikkim, Uttaranchal and Himachal Pradesh were also granted area-based exemptions. Hon'ble Members are fully aware of the arguments in favour and the rival arguments against. I have to be fair to both sides. Accordingly, I propose that area specific exemptions enjoyed by States other than the North-Eastern States and J&K will continue and be available to units set up or expanded on or before 31 March 2007.

I shall now deal with the most challenging tax problem that I faced this year. This relates to the textile sector. Last year, handlooms and powerlooms were brought into what is described as the CENVAT chain. The intention was good but, I am afraid, the decision did not take into account the decentralized and fragmented nature of production of fabrics in the country. Besides, the so-called CENVAT chain had nearly 40 exemptions at different stages. In fact, two exemptions were added after the decision.

I am conscious that the Agreement on Textiles and Clothing will come to an end on 31 December 2004. Our textile sector must, therefore, be made more efficient and competitive. Those who can compete because of their organizational strength should be allowed to compete; for the rest, we must allow more time to comply with a mandatory tax regime. Meanwhile, there must be a level playing field.

If I have understood correctly the mind of Hon'ble Members of Parliament and of the leaders of various political parties, I believe that there is a universal demand to free the handloom and powerloom sectors from the CENVAT regime. After giving my anxious consideration to the complex issues, I propose to withdraw the mandatory CENVAT duty. Instead, I propose to introduce a new tax regime for the textile sector and, in this exercise, I am happy to say that I have the full support of the Minister of Textiles.

Let me now explain briefly the new regime:

- Firstly, the mandatory CENVAT chain will stand abolished.
- Secondly, there will be no mandatory excise duty on pure cotton, wool and silk, whether it is fibre, yarn, fabric or garment.
- Thirdly, blended textiles and pure non-cotton (polyester, viscose, acrylic and nylon) will have a different tax regime.

- Fourthly, there will be a mandatory excise duty on man-made staple fibre at 16 per cent; on polyester filament yarn (including textured yarn) at 24 per cent; and on other man-made filament yarn (including textured yarn) at 16 per cent.

Every manufacturer—be it handloom or powerloom or composite mill—will have the option to choose between two routes. One will be the exemption route and the other will be the CENVAT route. Under the exemption route, no excise duty will be payable at any stage (except on man-made fibre and filament yarn). Under the CENVAT route, credit can be taken for all excise duties paid at earlier stages. For the purposes of the optional CENVAT route, it is necessary to specify in the Tariff schedule the applicable excise duty rates. For the pure cotton sector, the uniform rate will be 4 per cent on yarn, fabrics, garments and made-ups. For the blended textiles sector and pure non-cotton sector, the uniform rate will be 8 per cent.

It is my firm belief that the millions of handloom weavers and powerloom weavers will welcome the new regime. As far as the composite mills are concerned, there is no cause for worry. They are also free to take the exemption route, but if they choose to opt for the CENVAT route, they may do so and claim CENVAT credit for all duties paid at earlier stages. Garment exporters should give the new regime a fair chance. I expect that prices of fabrics will moderate and garment exporters will stand to benefit. Their concerns, if any, can be addressed through the drawback or DEPB mechanism.

In course of time, it is possible that some manufacturers of handlooms and powerlooms will take advantage of the low uniform rates of duty and opt for the CENVAT route.

There remains the service tax. I propose to take a major step towards integrating the tax on goods and services. Accordingly, I propose to extend credit of service tax and excise duty across goods and services. In order to neutralize the revenue impact of such extension and keeping in mind the mean CENVAT rate, I propose to enhance the rate of service tax from 8 per cent to 10 per cent.

58 services have been brought under the net so far. I propose to add some more this year. These are business exhibition services; airport services; services provided by transport booking agents; transport of goods by air; survey and exploration services; opinion poll services; intellectual property services other than copyright; brokers of forward contracts; pandal and shamiana contractors; outdoor caterers; independent TV/radio programme producers; construction services in respect of commercial or industrial constructions and life insurance services to the extent of the risk premium. I may clarify that there is no intention to levy service tax on truck owners or truck operators. Nor, as was clarified by my

predecessor, is there any intention to levy service tax on the savings part of the premium collected by an insurer.

I also propose that some currently taxable services should be redefined to cover all service providers falling under the same category, but I do not wish to burden this speech with the details. Exemptions granted in the case of some taxable services are proposed to be removed. The administration of service tax will be made more tax-payer-friendly. I propose to do away with the mandatory verification of self assessment and the mandatory penalty for non-registration.

Finally, there is the tax mandated by the NCMP. That is an education cess on all taxes. I propose to levy a cess of 2 per cent on income tax, corporation tax, excise duties, customs duties and service tax.

Besides my tax proposals, I have looked at another source of revenue. There are large recoverable arrears both in direct taxes and indirect taxes. Even the undisputed arrears are quite substantial. I have, therefore, assumed that I would be able to recover a tidy sum this year. A special, multi-pronged drive will be made to recover these arrears, the details of which will be announced later.

My tax proposals on direct taxes are expected to yield a gain of Rs. 2,000 crore. On the indirect taxes side, they are broadly revenue neutral.

Conclusion

Mr. Speaker, Sir, the countries of the world, India included, have set for themselves the Millennium Development Goals. Our date with destiny is not at the end of the millennium, but in the year 2015. Will we achieve those goals? In the eleven years that remain, it is in our hands to shape our destiny. Progress is not always on a linear path, nor is it inevitable. Two thousand years ago, Saint Tirvalluvar said:

"Aran Izhukkathu Allavai Neeki Maran Izhukka
Maanam Udayathu Arasu"

(They are good rulers who observe ethics, commit no crime and walk the path of honour and courage)

If we bring thought and passion to our governance and walk the path of honour and courage, we can make the future happen. And this century will be India's century. Sir, with these words, I commend the Budget to the House.

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