Title: Presentation of Statement of the Estimated Receipts and Expenditure of the Government of India for the year 2005-2006.

11.05 hrs.

GENERAL BUDGET, 2005-2006

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM):

PART − A

Mr. Speaker, Sir,

I rise to present the Budget for the year 2005-06.

Last year, while presenting the Budget, I had suggested that the vote in Elections 2004 was a vote for change. It was, I believe, a vote in favour of a new leadership; a new Government; new policies; and a new focus on the common citizen who is at the centre of all politics and governance.

I reaffirm my belief, and I also declare my conviction that the UPA Government under Prime Minister Dr. Manmohan Singh has charted a new path that is more acceptable to the people of the country and that will bring the greatest good to the greatest number.

Before I turn to the business of the day, I wish to record Government's deep sorrow on the loss of lives, property and livelihood caused by the tsunami tragedy. So far, Government has approved relief packages amounting to Rs.3,644 crore. The Planning Commission, which is coordinating the Tsunami Reconstruction and Rehabilitation Programme, has drawn up a programme at an estimated cost of Rs.10,216 crore. I wish to assure the House, and the affected people, that the Government will provide the necessary funds for the purpose and ensure that every affected family is fully rehabilitated.

I. THE MACROECONOMIC BACKDROP

The Immediate Past: Where We Were in 2003-04

In May 2004, the UPA Government inherited an economy that had, as we now know, registered a growth rate of 8.5 per cent in 2003-04 on the back of a poor 4 per cent in the previous year. While growth was indeed broad-based, the impressive growth rate was due largely to the restoration of output in the agriculture and allied sector. I had then commented that my immediate predecessor was a very lucky man, even while his predecessor was not so lucky. Notwithstanding the high growth rate, there were several disturbing trends which came to notice in May 2004. The *first* was a liquidity overhang at the end of 2003-04 which had spilled over into 2004-05. The *second* was a definite buildup of inflationary pressures as a result of a sharp rise in global petroleum prices. The *third* was an unanticipated 13 per cent deficiency in the south-west monsoon. The *fourth* was an apparent decline in business confidence that had led to a sharp downturn in new investment, and also showed up as current account surpluses. By any standard, these were formidable challenges, but the UPA Government was prepared to face these challenges.

The Present: Where We Are in 2004-05

The National Common Minimum Programme (NCMP) mandated the Government to maintain a growth rate of 7 - 8 per cent a year, to promote investment, to generate employment, to accelerate fiscal consolidation, to ensure a higher fiscal devolution, and to focus on agriculture, manufacturing and infrastructure. The NCMP also mandated the Government to provide universal access to education and health care and to assure one hundred days of employment to one person in each family. I believe that, in the space of 9 months, we have risen to the challenge and carved out many successes.

â€¢ According to the Central Statistical Organization, the growth rate in the current year is estimated to be 6.9 per cent, with the manufacturing sector expected to grow at 8.9 per cent.

â€¢ Inflation which touched a high of 8.7 per cent on August 28, 2004 has been reined in. As on February 12, 2005, the rate of inflation was 5.01 per cent which is more than one percentage point lower than what it was in the same week in the previous year. Inflation based on CPI for industrial workers was even lower, and stood at 3.8 per cent in December, 2004.

â€¢ Business confidence has been restored and investments in 2004-05 have been buoyant. Non-food credit has increased by 21.2 per cent.

As the year draws to a close, we can predict confidently that all the engines of the economy are running at nearly full speed.

We have also fulfilled many of our promises to the common citizen. Last year, I had promised that agricultural credit will be increased by 30 per cent, and I am happy to inform the House that, against the announced target of Rs.105,000 crore, we are likely to achieve a disbursement of Rs.108,500 crore. Public sector banks and regional rural banks have added so far 58.20 lakh new farmers to their portfolio of borrowers. I had promised that education loans would be given liberally to students. As against 1,08,000 loans amounting to Rs.1,983 crore given in 2003-04, 1,40,000 loans amounting to Rs.2,249 crore have been given up to December 31, 2004. I had promised that the number of families covered under the Antyodaya Anna Yojana will be increased from 1.5 crore families to 2 crore families, and that promise has been kept. I had promised that a redesigned Food for Work Programme will be launched in 150 districts. That was done on November 14, 2004. I had promised that a National Rural Employment Guarantee Bill will be introduced. That has been done. I had promised that we would promote the concept of Self-Help Groups vigorously. In the current year, against the target of 1.85 lakh SHGs, we have already credit-linked 2.26 lakh SHGs, and we have disbursed credit to the tune of Rs.1,197 crore. Hon'ble Members will note that in each of these areas the focus of the Government's attention has been the common citizen − be it farmer, student, self-employed woman or labourer in search of work and food.

The Year Ahead: Where We Want To Be in 2005-06

Growth, stability and equity are mutually reinforcing objectives. The NCMP leans towards decisive intervention by the State in favour of the poor. Given the resilience of the Indian economy, it is possible to mobilize the resources and launch a direct assault on poverty and unemployment. That is the only way to bring immediate relief to the *aam admi*.

The Big Picture

Let me first give the big picture. In 2004-05, Gross Budgetary Support (GBS) for the Plan was Rs.145,590 crore to which we added Rs.2,000 crore subsequently. As I shall explain later, the pattern of funding has changed consequent to the recommendations of the Twelfth Finance Commission (TFC). On a like-to-like basis, GBS for the Plan in 2005-06, works out to Rs.172,500 crore. This represents an increase of 16.9 per cent. Support for the Central Plan in BE 2004-05 was Rs.87,886 crore and in BE 2005-06 this has been enhanced to Rs.110,385 crore, representing a very substantial and I believe unprecedented increase of 25.6 per cent. On priority sectors and flagship programmes falling under the NCMP, I propose to provide over and above what was provided this year an additional sum of Rs.25,000 crore in the next year.

For example, the allocation for education in 2005-06 will be Rs.18,337 crore. Next only to education, the plan allocation for rural development will be Rs.18,334 crore. On subsidy for fertilizers, the estimate is Rs.16,254 crore. The estimated expenditure on health and family welfare is Rs.10,280 crore.

II. ASSAULT ON POVERTY AND UNEMPLOYMENT

Empowering the People

India is not a poor country, yet a significant proportion of our people are poor. Poverty is not only income poverty. Other indicators of poverty are illiteracy, disease, infant mortality, malnutrition, absence of skills and unemployment. The whole purpose of democratic government is to eliminate poverty and to give to every citizen the opportunity to be educated, to learn a skill and to be gainfully employed. The Government holds that it is its sacred duty to empower the poor and eliminate the scourge of poverty.

Employment

In the last Budget, I had rejected the idea of jobless growth. As I unfold the vision of the UPA Government, Hon'ble Members will note that the central theme that runs through the various schemes and programmes is creation of jobs. Assured irrigation facilities to an additional 1 crore hectares of land over a period of five years will generate employment for an additional 1 crore people at the rate 1 person per hectare. The food processing industry is growing at a rate which generates 2.5 lakh jobs every year. The textile sector alone has a potential to create 1.2 crore jobs over the next 5 years. The information technology (IT) industry is expected to offer an additional 70 lakh jobs by 2009. Construction industry is also expected to throw up lakhs of jobs. Sectors with potential for generating employment will receive the highest attention of the Government.

National Rural Employment Guarantee Scheme

After the National Food for Work programme was launched in November 2004, provision was made for the cash component and the foodgrain component. In overall terms, the expenditure in the current year is estimated at Rs.4,020 crore because the year was a part year. For 2005-06, a provision of Rs.5,400 crore for the cash component and 50 lakh MT of foodgrains have been made and, in overall terms, the allocation will increase to Rs.11,000 crore. It is Government's intention to convert this programme into the National Rural Employment Guarantee Scheme. When fully rolled out, the scheme will provide livelihood security for crores of poor families, and I promise to find the money for the programme.

National Rural Health Mission

The National Rural Health Mission (NRHM) will be launched in the next fiscal. Its focus will be strengthening primary health care through grass root level public health interventions based on community ownership. The total allocation for the Department of Health and the Department of Family Welfare will increase from Rs.8,420 crore in the current year to Rs.10,280 crore in the next year. The increase will finance the NRHM and its components like training of health volunteers, providing more medicines and strengthening the primary and community health care system.

I am also happy to announce that work on the six AIIMS-like institutions will start next year to augment medical education in deficient States.

Antyodaya Anna Yojana

The Antyodaya Anna Yojana now covers 2 crore Below Poverty Line (BPL) families. The number will be increased to 2.5 crore families in 2005-06.

ICDS

The universalization of the Integrated Child Development Services (ICDS) scheme is overdue. It is my intention to ensure that, in every settlement, there is a functional anganwadi that provides full coverage for all children. As on date there are 6,49,000 anganwadi centres. I propose to expand the ICDS scheme and create 1,88,168 additional centres that are required as per the existing population norms. Forty seven per cent of children in the age group 0-3 are reportedly underweight. Supplementary nutrition is an integral part of the ICDS scheme. I propose to double the supplementary nutrition norms and share one-half of the States' costs for this purpose. I also propose to increase the allocation for ICDS from Rs.1,623 crore in BE 2004-05 to Rs.3,142 crore in BE 2005-06.

Mid-day Meal Scheme

The Mid-day Meal Scheme for children has made a promising start throughout the country. 11 crore children are covered today. The Central Government is now providing the cost of food grains as well as the conversion cost at the rate of Re.1 per child. The allocation in BE 2004-05 was Rs.1,675 crore. I propose to increase the allocation for the next year to Rs.3,010 crore.

Sarva Shiksha Abhiyan

The Sarva Shiksha Abhiyan programme is the cornerstone of the Government's intervention in basic education for all children. Sarva Shiksha Abhiyan was allocated Rs.3,057 crore in the Budget Estimates for 2004-05. During the course of the year, I enhanced the allocation to Rs.4,754 crore. A non-lapsable fund called "Prarambhik Shiksha Kosh" has been created for funding this programme. I propose to increase the allocation for the next year to Rs.7,156 crore.

Drinking Water and Sanitation

All drinking water schemes have now been brought under the Rajiv Gandhi National Drinking Water Mission. In the current year, so far, 31,355 uncovered rural habitations have been provided drinking water facilities. During 2005-06 the emphasis will be on covering more habitations. Emphasis will also be laid on tackling water quality in about 2.16 lakh habitations in Andhra Pradesh, Gujarat, Karnataka, Rajasthan, West Bengal where the problems are acute and some other States. I propose to increase the outlay for the Mission from Rs.3,300 crore in the current year to Rs.4,750 crore in the next year.

Sanitation, however, remains critically deficient. Only about 30 per cent of the rural households have access to safe sanitation facilities. The Total Sanitation Campaign (TSC) now operates in 452 districts. Government intends to extend the TSC to all districts, and I propose to allocate Rs.630 crore for the next year.

Scheduled Castes and Scheduled Tribes

I wish to restate my commitment to inclusive economic growth. It is important to bring scheduled castes and scheduled tribes into the development process. For the first time, you will find in the Budget papers a separate statement on schemes for the development of SCs and STs. The allocation for the programmes is Rs.6,253 crore.

The key to empowering the scheduled castes and scheduled tribes is to provide top class education opportunities to meritorious students. The three on-going scholarship schemes for SC/ST students under the Central Plan − pre-Matric, post-Matric, and merit-based − will continue. To provide an added incentive, I propose a new window: a short list of institutes of excellence will be notified, and any SC/ST student who secures admission in one of those institutes will be awarded a larger scholarship that will meet the requirements for tuition fees, living expenses, books and a computer. The details of the scheme will be announced by the ministry concerned.

Government will also introduce the Rajiv Gandhi National Fellowship for SC and ST students for pursuing M. Phil and Ph.D. courses in selected universities. I propose to provide funds for 2000 Fellowships per year to be awarded from 2005-06 on the pattern of UGC Fellowships.

Women and Children

Last July, I promised to consider gender budgeting. Hon'ble Members will be happy to note that I have included in the Budget documents a separate statement highlighting the gender sensitivities of the budgetary allocations under 10 demands for grants. The total amount in BE 2005-06, according to the statement, is Rs.14,379 crore. Although this is another first in budget-making in India, it is only a beginning and, in course of time, all Departments will be required to present gender budgets as well as make benefit-incidence analyses.

Minorities

Minorities would have to be brought more into the development process. I propose to increase the equity support, as may be required, for the National Minorities Development and Finance Corporation.

A certain percentage of new schools that will be opened under the Sarva Shiksha Abhiyan as well as the Kasturba Balika Vidyalaya Scheme will be located in districts or blocks having a substantial minority population. Likewise, a certain proportion of new anganwadi centres will be located in blocks or villages which have a substantial concentration of minorities.

Urdu is the mother tongue of a large number of people in Uttar Pradesh and Bihar, but there is very little provision for teaching Urdu. I propose to provide central assistance for recruitment and posting of Urdu language teachers in primary and upper-primary schools that serve a population in which at least one fourth belong to that language group.

The Ministry of Social Justice and Empowerment and the Ministry of Human Resource Development implement a number of schemes for pre-examination coaching of candidates belonging to the minority communities. These schemes are confined to Government institutions, and the results have not been encouraging. Hence, I propose to expand these schemes to include reputed private coaching institutes which have a track record of showing good results in competitive examinations. I propose to provide funds to pay the fees on behalf of meritorious candidates from minority communities who enroll in these selected private institutes.

Backward Regions Grant Fund

Since the announcement in the last Budget of a Grant Fund for backward districts, a lot of thought has gone into the proposal. An Inter-Ministerial Group (IMG) has identified 170 backward districts based on certain socio-economic variables. The IMG has also proposed that resources under the new facility will be conditional on Panchayati Raj institutions being properly empowered, including devolution of functionaries and funds. I propose to accept the recommendations of the IMG, and I am happy to announce the establishment of a Backward Regions Grant Fund. An allocation of Rs.5,000 crore has been made in the Plan for 2005-06, and an equal amount will be allocated every year in the next four years. Consequent upon the establishment of the Fund, the existing Rashtriya Sam Vikas Yojana (RSVY), envisaged to end in 2006-07, will however be wound up with suitable transition arrangements that will protect every district now covered under RSVY.

Bihar

The NCMP refers to special economic packages for Bihar, Jammu & Kashmir and the North Eastern Region. Till now, Bihar received special assistance through the RSVY. The transition arrangements under RSVY will continue until 2006-07. Meanwhile, the backward districts of Bihar will begin to receive assistance from the Backward Regions Grant Fund. I may also point out that, recognizing the needs of Bihar, the TFC has made substantial grants amounting to Rs.7,975 crore for the period 2005-10. Bihar has also been identified as one of the few States requiring special grants for the health and education sectors.

Jammu & Kashmir

The Government will provide special plan assistance to Jammu and Kashmir under a recently-approved Reconstruction Plan, in addition to the normal State Plan. As against the current year's State Plan of Rs.3,008 crore, the size of the State Plan for 2005-06 has been fixed at Rs.4,200 crore. The Baglihar project was allocated Rs.300 crore this year and will be provided adequate funds next year too. The Udhampurâ€”Baramulla rail line will be implemented as a project of national importance.

North Eastern Region

All Ministries and Departments are required to allocate at least 10 per cent of their plan budget for schemes and programmes in the North Eastern Region (NER). For 2005-06, this would amount to Rs.9,308 crore. The Kumarghatâ€”Agartala and Lumdingâ€”Silcharâ€”Jiribamâ€”Imphal projects will be supported with additional funds outside the railway budget as projects of national importance. A special package for highway development in the NER has also been approved, and I have allocated Rs.450 crore in this behalf.

Rural Infrastructure

Government will focus on providing basic infrastructure to the poor, especially those in rural India and in urban slums. The Rural Infrastructure Development Fund which was revived last July will, as in the current year, be provided a corpus of Rs.8,000 crore in 2005-06 also.

III. BHARAT NIRMAN

In his address to Parliament, the President outlined an overarching vision to build India, and called it 'Bharat Nirman'. Bharat Nirman has been conceived as a business plan, to be implemented over a period of four years, for building infrastructure, especially in rural India. It will have six components, namely, irrigation, roads, water supply, housing, rural electrification and rural telecom connectivity. In each of these areas, we must dare to be bold and set for ourselves high targets to be achieved by the year 2009.

The UPA Government's goals are:

â€¢ to bring an additional one crore hectares under assured irrigation;

â€¢ to connect all villages that have a population of 1000 (or 500 in hilly/tribal areas) with a road;

â€¢ to construct 60 lakh additional houses for the poor;

â€¢ to provide drinking water to the remaining 74,000 habitations that are uncovered;

â€¢ to reach electricity to the remaining 1,25,000 villages and offer electricity connection
to 2.3 crore households; and

â€¢ to give telephone connectivity to the remaining 66,822 villages.

'Bharat Nirman' will require huge resources. Government believes that Bharat Nirman is an achievable project, and it is our intention to give rural India a new deal fully involving the Panchayati Raj Institutions in the planning and implementation.

IV. INVESTMENT

I now turn to investment which is a paramount requirement to consolidate the growth process. In agriculture, we shall enhance public and private investment in the infrastructure required to support expansion, diversification and value addition. In the industrial sector, both the public sector and the private sector will be allowed the space to grow and compete with each other. Government will play the leading role in providing and facilitating investment in public goods such as roads, railways, power, seaports and airports. In the services sector, Government will recognize the leading role played by the private sector, and provide a supportive policy environment and stable tax policies.

I am happy to announce that in 2005-06, the Government will provide equity support of Rs.14,040 crore and loans of Rs.3,554 crore to Central Public Sector Enterprises (including Railways).

Success, however, will ultimately depend upon our ability to finance the growth. Government will, therefore, through a mix of right policies and prudent taxes, promote savings and devise ways and means to channel these savings into productive investment. The capital market, banks, insurance companies, pension funds and superannuation funds would have a crucial role in mobilizing and disbursing the financial resources required to sustain high investment.

V. AGRICULTURE

With about two thirds of the population dependent on agriculture, and the sector producing only 21 per cent of GDP in 2003-04, it is imperative that we address the problems of our farmers with a sense of urgency. Agriculture being a State subject, the bulk of public investment in agriculture takes place at the State level, and the Central Government's support to the States acts as a catalyst.

Roadmap for Agricultural Diversification

Indian agriculture has indeed diversified from food grains to other crops, but more needs to be done. The Ministry of Agriculture will prepare a roadmap for agricultural diversification. The road map will focus on fruits, vegetables, flowers, dairy, poultry, fisheries, pulses and oilseeds.

National Horticulture Mission

The National Horticulture Mission, announced in the last Budget, will be launched on April 1, 2005. I propose to allocate Rs.630 crore in 2005-06 for the Mission. The Mission will ensure an end-to-end approach having backward and forward linkages covering research, production, post-harvest management, processing and marketing, under one umbrella, in an integrated manner. As the Mission gathers pace, more funds will be provided.

Plantation Sector

I am aware of the difficulties that the plantation sector has faced for some years now. While the prices of commodities such as tea and coffee have shown some improvement, the sector still faces difficulties. The Price Stabilization Fund has not proved very effective or popular. Therefore, Government has set up an expert committee to suggest improvements to the Fund and its operation. In the case of tea, our comparative advantage has been eroded largely because of the declining productivity of tea. Government will examine ways and means of introducing a programme for massive replantation and rejuvenation.

Agricultural Marketing Infrastructure

Government proposes to introduce a new scheme called Development/Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization. The goal of this scheme is to induce large investments from the private and cooperative sectors for setting up agricultural markets, marketing infrastructure and support services such as grading, standardization and quality certification. Assistance will be available in the form of credit-linked, back-ended subsidy. It is proposed to implement the scheme through the National Bank for Agriculture and Rural Development (NABARD) and the National Cooperative Development Corporation (NCDC) in those States which amend their Agricultural Produce Marketing Committee (APMC) Acts. I propose to allocate Rs.72 crore for the new scheme.

Water Resources, Flood Management and Erosion Control

The National Project, announced by me last July, for the repair, renovation and restoration of water bodies will be launched in the month of March 2005. The pilot project is planned for 16 districts in 9 States and will cover nearly 700 water bodies, and 20,000 hectares of additional land will come under irrigation. The allocation for the pilot project has been increased to Rs.100 crore in 2005-06.

Uttar Pradesh, especially its eastern part, Bihar, West Bengal, Orissa, Assam and the North Eastern States are regularly affected by floods in the Ganga basin and in the Brahmaputra and Barak valleys. A Task Force constituted to recommend measures for flood management and erosion control has submitted its report. The Plan outlay in 2005-06 to implement the report will be Rs.180 crore. Besides, a sum of Rs.52 crore has been allocated for the Farakka Barrage Project.

The Accelerated Irrigation Benefit Programme (AIBP) has been reviewed and the focus turned to early completion of truly last mile projects. In BE 2004-05, I had provided a sum of Rs.2,800 crore. Having regard to the improvement in the pace of implementation, the outlay has been increased to Rs.4,800 crore for the next year.

Micro Irrigation

Water-use efficiency in Indian agriculture is one of the lowest in the world. Government will promote micro-irrigation technology, comprising drip and sprinkler irrigation, on a large scale. About 1.2 million hectares have been covered under micro-irrigation so far, and the plan is to increase the coverage to 3 million hectares by the end of the Tenth Plan and to 14 million hectares by the end of the Eleventh Plan. Accordingly, I have provided Rs.400 crore for promoting micro-irrigation in 2005-06.

Rural Credit and Indebtedness

Government intends to continue with its effort to turn the focus of commercial banks, regional rural banks (RRBs) and cooperative banks towards providing credit, especially production credit, to rural households and farm households. Particularly in agricultural credit, innovations are possible. I propose to request the Reserve Bank of India (RBI) to examine the issue of allowing banks to adopt the agency model, by using the infrastructure of civil society organizations, rural kiosks and village knowledge centres, to provide credit support to rural and farm sectors.

In June 2004, I had announced my intention to double the flow of agricultural credit in three years. I had also announced an indicative target of Rs.105,000 crore. Notwithstanding a below par performance by co-operative banks, together, all three arms will disburse Rs.108,500 crore in the current year. Continuing on the same path, I propose to ask commercial banks, RRBs and cooperative banks to increase the flow of credit by another 30 per cent in 2005-06. Further, the public sector banks would be asked to increase the number of borrowers by another 50 lakh.

Cooperative banks in India, with few exceptions, are in a shambles. Six State Central Cooperative Banks and 140 District Central Cooperative Banks do not comply with Section 11 of the Banking Regulation Act, 1949. They also have difficulty in accessing refinance for agricultural credit. Alarmed by the gravity of the situation, I had appointed a Task Force to examine the reforms required in the cooperative banking system. The Task Force has submitted its report. The recommendations include:

â€¢ Special financial assistance to wipe out accumulated losses and strengthen the capital base of co-operative credit institutions;

â€¢ Institutional restructuring to ensure democratic institutions; and

â€¢ Changes in the legal framework to empower RBI to enforce prudent financial management.

I propose to accept the report in principle. I also propose to call State Governments for consultation and begin the process of implementing the recommendations in those States that show willingness to accept the recommendations.

Farm Insurance

The National Agricultural Insurance Scheme (NAIS) has been in operation since rabi 1999-2000. I have received the recommendations made by the joint group constituted by the Ministry of Agriculture to suggest an improved farmer-friendly crop insurance scheme. Further consultation with all the stakeholders would be required. Meanwhile I propose to continue the NAIS in its present form for kharif and rabi 2005-06.

Micro Finance

The programme of linking Self Help Groups (SHGs) with the banking system has emerged as a major micro-finance programme in the country. 560 banks including 48 commercial banks, 196 RRBs and 316 cooperative banks are now actively involved in the programme. I propose to enhance the target for credit-linking in the next fiscal from 2 lakh SHGs to 2.5 lakh SHGs.

At present, micro finance institutions (MFIs) obtain finance from banks according to guidelines issued by RBI. MFIs seek to provide small scale credit and other financial services to low income households and small informal businesses. Government intends to promote MFIs in a big way. The way forward, I believe, is to identify MFIs, classify and rate such institutions, and empower them to intermediate between the lending banks and the beneficiaries. Commercial banks may appoint MFIs as "banking correspondents" to provide transaction services on their behalf. Since MFIs require infusion of new capital, I propose to re-designate the existing Rs.100 crore Micro Finance Development Fund as the "Micro Finance Development and Equity Fund", and increase the corpus to Rs.200 crore. The fund will be managed by a Board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. The Board will be asked to suggest suitable legislation, and I expect to introduce a draft Bill in the next fiscal year.

I propose to request RBI to open a window to enable qualified NGOs engaged in micro-finance activities to use the External Commercial Borrowing (ECB) window. Detailed guidelines containing necessary safeguards will be issued by RBI.

Micro Insurance

The benefits of opening the insurance sector are now visible by way of vast improvement in insurance penetration and insurance density, and the availability of a wide variety of products. Government would like to see these benefits percolate to rural India and to the vulnerable sections of the population. Micro insurance is a distinct product. Its design and delivery are specialized functions. The Insurance Regulatory Development Authority (IRDA) has published draft Regulations for micro insurance. NGOs, SHGs, cooperatives and MFIs will be invited to become micro insurance agents. Government will extend full support to the effort of IRDA to promote micro insurance.

A Knowledge Centre in Every Village

The National Commission on Farmers has recommended the establishment of Rural Knowledge Centres all over the country using modern information and communication technology (ICT). Mission 2007 is a national initiative launched by an alliance comprising nearly 80 organizations including civil society organizations. Their goal is to set up a Knowledge Centre in every village by the 60th anniversary of Independence Day. Government supports the goal, and I am glad to announce that Government has decided to join the alliance and route its support through NABARD. I propose to allow NABARD to provide Rs.100 crore out of RIDF.

Agricultural Research

Agricultural Research has a vital role to play in the strategy for reviving and encouraging diversification. Our agricultural universities and research institutions have done good work in the past and now need to be strengthened and modernized. A Task Force headed by Dr. M S Swaminathan has recommended the creation of a National Fund for Strategic Agricultural Research. I am happy to announce an initial provision of Rs.50 crore for operationalizing this Fund.

VI. MANUFACTURING

India should build on its manufacturing capacities and scale them up to global standards. Both the Investment Commission and the National Manufacturing Competitiveness Council have started work in right earnest. I believe we shall reap the first successes of their work in the next financial year.

Worldwide, it is manufacturing that has driven growth. In order to revive the manufacturing sector, particularly small and medium enterprises, and to enable them to adjust to the competitive pressures caused by liberalization and moderation of tariff rates, I propose to launch a new scheme that will help them strengthen their operations and sharpen their competitiveness. The scheme will be called the "Manufacturing Competitiveness Programme." The design of the scheme will be worked out by the National Manufacturing Competitiveness Council in consultation with the industry.

Textiles

In the last Budget, I made a beginning in addressing the tax-induced rigidities in the textile sector in order to prepare the sector for the post-quota regime. There is a new vigour in the sector, especially in the handloom and powerloom segments. Government will continue to nurture the textile sector which has huge potential for employment and exports. The estimate of investment made in 2004-05 is Rs.20,000 crore. The estimate for the next year is Rs.30,000 crore. The Technology Upgradation Fund (TUF) scheme is being continued with an enhanced allocation of Rs.435 crore. I propose to introduce a 10 per cent capital subsidy scheme for the textile processing sector in addition to the normal benefits available under the TUF Scheme.

I think it is necessary to lend further help to the handloom sector. The Government proposes to adopt the cluster development approach for the production and marketing of handloom products. The Ministry of Textiles will take up

20 clusters in the first phase at a cost of Rs.40 crore, and the amount will be provided during the course of the year.

The Government is implementing a life insurance scheme for handloom weavers which provides insurance cover up to Rs.50,000. At present, only 2 lakh weavers are covered. I propose to enlarge the coverage of the scheme to 20 lakh weavers in two years which will cost Rs.30 crore per year when fully rolled out. The Government is also implementing a health insurance package for weavers. Here too, the coverage is now only for 25,000 weavers. I propose to increase the coverage to 2 lakh weavers at a recurring cost of Rs.30 crore per year. Once the two new and enlarged schemes are approved, I propose to provide the required funds.

Sugar Industry

The sugar industry has been under financial stress since 2001. The position became worse due to two successive droughts in certain parts of the country. The Tuteja Committee appointed by the Government has submitted its report. After a careful examination of the report, and after consulting RBI and NABARD, I propose the following financial package for the revitalization of the sugar industry:

â€¢ Sugar factories that were operational in 2002-03 sugar season will be assisted to restructure. NABARD, in consultation with State Governments, RBI, banks and financial institutions will work out a scheme for providing a financial package with a moratorium of two years, on both principal and interest, and a schedule of payment having regard to the commercial viability of each unit.

â€¢ Government has already reduced the rate of interest on loans from the Sugar Development Fund to 2 percentage points below the bank rate. I propose to make the same rate applicable to all outstanding loans as on October 21, 2004.

â€¢ Indian Banks' Association (IBA) and NABARD will be asked to work out a scheme under which individual sugar factories may renegotiate the rate of interest on their past high interest loans.

Pharmaceuticals and Biotechnology

Our human resource base gives us an exceptional advantage in pharmaceuticals and biotechnology. The Indian pharmaceutical industry has declared its preparedness to produce drugs under the new patent regime. Government has already set up a Rs.150 crore research and development corpus fund for the industry. The corpus deserves to be increased, and I propose to do so in phases beginning next year. India has also the potential to become an attractive destination for outsourcing in drug discovery and clinical research, and for co-development of drugs and manufacturing. In biotechnology, the industry has the potential to be a global leader supplying novel technologies and products to the health and agriculture sectors. Government will provide a stable policy environment and necessary incentives to help the two industries become world leaders.

Small and Medium Enterprises

In recent years, our approach to small scale industry has evolved, and now we are inclined to treat the sector as the small and medium enterprises sector. Continuing the process initiated a few years ago, after consulting stakeholders and on the recommendation of the Advisory Committee, the Ministry of Small Scale Industries has identified 108 items for de-reservation. Among them, I would like to mention 30 items in the category of "textile products, including hosiery", which is a sector poised for rapid growth.

In the last Budget, I had significantly liberalized the capital subsidy scheme, and a provision of Rs.135 crore was made for "Promotion of SSI Schemes". That provision is being enhanced to Rs.173 crore in 2005-06. Small Industries Development Bank of India (SIDBI) has established this year a SME Growth Fund with a corpus of Rs.500 crore. Small and medium units in knowledge-based industries such as pharma, biotech, and IT will be provided equity support through this fund.

There is a need for new legislation that will provide a supportive environment for small and medium enterprises. I am glad to inform the House that my colleague, the Minister of Small Scale Industries, will introduce in this session the Small and Medium Enterprises Development Bill.

Skills Training

Skills development, especially for youth who have only minimal formal education, is an area which can no longer be ignored. Last July, I had proposed a programme to upgrade 500 Industrial Training Institutes (ITIs). I am happy to inform the House that in the current year 100 ITIs have been identified. Out of them, 67 ITIs in 15 States/Union Territories have been linked with industry and will be upgraded at a cost of Rs.1.6 crore each.

There is a demand for specific skills of a high order which is often unmet. I, therefore, propose a Public-Private Partnership between Government and industry that will take up the skills development programme under the name Skills Development Initiative or SDI. Details of the scheme will be worked out and announced shortly.

Foreign Trade

We shall build on the growing external strengths of the economy. Government has delivered on the promise to accelerate foreign trade. In April-January 2004-05 exports and imports have grown by 25.55 per cent and 34.72 per cent, respectively, in US dollar terms. Government has fixed an ambitious target of US$ 150 billion for exports by the year 2008-09 in order to double India's share in world exports to 1.5 per cent. We intend to further liberalize trade policy and extend full support to the efforts of our exporters.

Foreign Direct Investment

On foreign direct investment (FDI), I would urge Hon'ble Members to take a pragmatic view. At the recent meeting of the Finance Ministers of G-7 countries, to which India and China were invited, the Finance Minister of China looked in my direction and told the gathering that China had received US$ 500 billion worth of foreign investment since China opened its economy in 1980. Of this, nearly US$ 60 billion came in calendar year 2004. Our own experience has been that the automobile, software, telecommunication and electronics sectors have benefited from FDI and have assimilated themselves into the global production chain. I believe that there are opportunities in other sectors as well, such as mining, trade and pensions. Government will, after due consultation, come forward with suitable proposals. And when we do, I hope we can take a leaf out of the book of China.

Telecommunications

Telecommunication is the best way to provide connectivity in urban and rural India. By the end of January 2005, we had achieved a tele-density of 8.75 per cent. However, we are concerned with the low tele-density in rural areas. So far, Government has released Rs.1,700 crore to the Universal Service Obligation (USO) Fund, which has been fully utilized. A provision of Rs.1,200 crore has been made for 2005-06. 1,687 subdivisions will get support under the USO Fund for rural household telephones. 5.20 lakh village public telephones (VPTs) have been installed so far, and BSNL has undertaken to provide VPTs in the next three years to the remaining 66,822 revenue villages.

National Highway Development Project

The National Highway Development Programme (NHDP) has made steady progress, and 5,172 kms of National Highways have been four-laned till January 2005 under NHDP I and NHDP II. To be launched in the next fiscal, NHDP III will target selected high density highways not forming part of the Golden Quadrilateral or the North-South and East-West corridors. I have provided Rs.1,400 crore for this purpose in 2005-06 to four-lane 4000 kms. A special package for the North Eastern region has also been approved, and I have allocated Rs.450 crore in this behalf. In overall terms, the outlay for National Highway development will be increased from Rs.6,514 crore in BE 2004-05 to Rs.9,320 crore in 2005-06.

Rural Electrification

A massive programme for rural electrification will begin in 2005-06 with the objective of covering 1.25 lakh villages in five years. The focus will be on deficient States. The programme envisages creation of a rural electricity distribution backbone, with a 33/11 KV substation in each block and at least one distribution transformer in each village. I have provided Rs.1,100 crore for this programme in the next year.

Indira Awas Yojana

Indira Awas Yojana is the flagship rural housing scheme for weaker sections. The allocation is being increased from Rs.2,500 crore in the current year to Rs.2,750 crore in BE 2005-06. About 15 lakh houses will be constructed during the next year.

Special Purpose Vehicle

The importance of infrastructure for rapid economic development cannot be overstated. The most glaring deficit in India is the infrastructure deficit. Investment in infrastructure will continue to be funded through the Budget. However, there are many infrastructure projects that are financially viable but, in the current situation, face difficulties in raising resources. I propose that such projects may be funded through a financial Special Purpose Vehicle (SPV). When large infrastructure projects are implemented, the foreign exchange resources could be drawn for financing necessary imports. Accordingly, I propose to establish an SPV to finance infrastructure projects in specified sectors. Roads, ports, airports and tourism would be sectors that can benefit most from the SPV. The projects will be appraised by an Inter-Institutional Group of banks and financial institutions. The SPV will lend funds, especially debt of longer term maturity, directly to the eligible projects to supplement other loans from banks and financial institutions Government will communicate the borrowing limit to the SPV at the beginning of each fiscal year. For 2005-06, I propose to fix the borrowing limit at Rs.10,000 crore.

I have also made a provision of Rs.1500 crore for "viability gap" funding for infrastructure projects. That mechanism will be used also in conjunction with the funding mechanism through the SPV.

PURA Clusters

The unorganized or informal sector accounts for 92 per cent of the employment and absorbs the bulk of the annual accretion to the labour force. PURA or Provision of Urban Amenities in Rural Areas is an idea that contains within itself possible solutions to a number of problems that afflict rural India such as unemployment, isolation from markets, lack of connectivity and migration to cities. The National Commission on Enterprises in the Unorganized/ Informal Sector has proposed pilot projects for 'growth poles' applying the PURA principles. The objectives are to expand production and employment in the unorganized enterprises around existing clusters of industrial activities and services as well as encourage the formation of new clusters. Once the proposals are firmed up, Government will take up the creation of a few growth poles, as pilot projects, in 2005-06.

National Urban Renewal Mission

The demographic trends in the country indicate a rapid increase in urbanization. India needs urban facilities of satisfactory standards to cope with the challenge. If our cities are not renewed, they will die. The National Urban Renewal Mission is designed to meet this challenge. It will cover the seven mega cities, all cities with a population of over a million, and some other towns. I propose to make an outlay of Rs.5,500 crore in 2005-06, including a grant component of Rs.1,650 crore for the Mission.

The Mumbai Metro Rail Project, the Mumbai Trans Harbour Link, the Mumbai Western Expressway Sealink and the Bangalore Metro Rail Project are examples of projects which I believe could be supported through the Mission. I look forward to proposals from other mega cities such as Delhi, Calcutta, Chennai, Hyderabad and Ahmedabad as well.

VIII. FINANCIAL SECTOR

The incipient investment boom in infrastructure, industry (including housing), and services needs to be nurtured through further reforms in the financial sector including reforms in bank finance and debt and equity markets.

Banking

The banking sector presents a picture of paradoxes. There are many banks in India but none among the top twenty in the world. Our largest bank, the State Bank of India, ranks 82 in terms of business. It is universally acknowledged that the key drivers of the banking sector in the future will be Competition, Consolidation and Convergence. RBI has prepared a road map for banking sector reforms and will unveil the same. While most proposals will be implemented by the RBI on its own authority, some legislative changes would be required to be made.

I had promised that a comprehensive Bill to amend the Banking Regulation Act, 1949 will be introduced in the Budget Session. In consultation with the RBI, I propose to introduce amendments to the Act −

â€¢ to remove the lower and upper bounds to the statutory liquidity ratio (SLR) and provide flexibility to RBI to prescribe prudential norms;

â€¢ to allow banking companies to issue preference shares, since preference share capital can be treated as regulatory capital under specified circumstances as per Basel norms;

â€¢ to introduce specific provisions to enable the consolidated supervision of banks and their subsidiaries by RBI in consonance with the international best practices in this regard;

I also propose to introduce amendments to the Reserve Bank of India Act, 1934-

â€¢ to remove the limits of the cash reserve ratio (CRR) to facilitate more flexible conduct of monetary policy; and

â€¢ to enable RBI to lend or borrow securities by way of repo, reverse repo or otherwise.

PFRDA

With increasing longevity, the problem of old-age income security can no longer be ignored. Government had announced a defined contribution pension scheme for newly recruited Central Government employees which would also be extended to the unorganized sector. I am happy to inform the House that seven State Governments − Andhra Pradesh, Chhattisgarh, Himachal Pradesh, Jharkhand, Manipur, Rajasthan and Tamil Nadu − have introduced similar schemes for their employees. Other States have also evinced interest. An Ordinance was promulgated on December 29, 2004 to set up a Pension Fund Regulatory and Development Authority (PFRDA). I propose to introduce a Bill to replace the Ordinance during this session.

Through the new scheme, it is proposed to offer a menu of investment choices to the subscriber and to provide a strong regulatory mechanism to ensure that the interests of subscribers are protected. I appeal to workers all over the country to join the new pension system.

Capital Market

The capital market has emerged as a major vehicle for converting savings into investment. It is also the preferred investment destination of foreign savings. The steps announced by me last July, and implemented, have strengthened the capital market. It is time for more measures and, hence, I propose to −

â€¢ authorize Securities and Exchange Board of India (SEBI) to set up a National Institute of Securities Markets for teaching and training intermediaries in the securities markets and promoting research; and

â€¢ permit FIIs to submit appropriate collateral, in cash or otherwise, as prescribed by SEBI, when trading in derivatives on the domestic market.

While India's equity market has made progress, the corporate bond market still lags behind. In order to address this gap, I propose to â€”

â€¢ amend the definition of 'securities' under the Securities Contracts (Regulation) Act, 1956 so as to provide a legal framework for trading of securitized debt including mortgage backed debt; and

â€¢ appoint a high level Expert Committee on corporate bonds and securitization to look into the legal, regulatory, tax and market design issues in the development of the corporate bond market.

Over the Counter (OTC) Derivatives

Over the counter (OTC) derivatives play a crucial role in mitigating the risks of corporates, banks and other financial entities. There is, however, some ambiguity regarding the legality of OTC derivative contracts which has inhibited their growth. I, therefore, propose to take measures to provide for clear legal validity of such contracts.

Stamp duty on Stock Exchange Corporatization

The Securities Contracts (Regulation) Act, 1956, as amended recently, requires all stock exchanges to be corporatized and de-mutualized. Three stock exchanges are not yet corporatized. In order to facilitate their corporatization, I propose to grant a one-time exemption to them from stamp duty on the notional transfer of assets.

Stamp Duty on Commercial Paper

In order to create a level playing field for banks and non-bank entities to issue commercial paper, and to bring the Indian commercial paper market closer to international standard, I propose to rationalize the stamp duty so that it applies uniformly regardless of the issuing entity.

Mumbai − A Regional Financial Centre

When I look at the map of the world, I am struck by the strategic location of Mumbai. It lies almost midway between London and Tokyo, two nerve centres of world finance. Mumbai is also home to the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) which now rank no.3 and no.5 among the stock exchanges of the world by the number of trades per year. In the last decade, we have built world class institutions on the securities markets and we now compare with the best in terms of technological sophistication, risk management and sound governance. I believe the time has come to begin work on making Mumbai a regional hub for finance. In consultation with the RBI, I propose to appoint a high powered Expert Committee to advise the Government on how to make Mumbai a regional financial centre.

Gold Units

Ten years ago we embarked on the process of ensuring that gold inflows are through the official channels alone. I believe that we are now in a position to introduce 'gold units' and create a market for such units. I propose to ask SEBI to permit, in consultation with RBI, mutual funds to introduce Gold Exchange Traded Funds (GETFs) with gold as the underlying asset, in order to enable any household to buy and sell gold in units for as little as Rs.100. Such units could be traded in the same manner as units of mutual funds.

IX. OTHER PROPOSALS

Institutions of Excellence

On January 6, 2005, the Prime Minister spoke about his intention to set up a Knowledge Commission to look into the issue of building quality human capital. Government believes that investments in institutions of higher education and Research and Development organizations are as important as investments in physical capital and physical infrastructure. What we need are world class universities, and we must make a beginning with one institution. We must have a university that will be ranked alongside Oxford and Cambridge or Harvard and Stanford. I am happy to inform the House that we have selected the Indian Institute of Science (IISc), Bangalore, which enjoys a high reputation as a centre of excellence in research and development. We shall work to make IISc, in a few years, a world class university. I propose to provide an additional sum of Rs.100 crore as a grant for this purpose.

VAT

In a remarkable display of the spirit of cooperative federalism, the States are poised to undertake the most important tax reform ever attempted in this country. All States have agreed to introduce the value added tax (VAT) with effect from April 1, 2005. VAT is a modern, simple and transparent tax system that will replace the existing sales tax and eliminate the cascading effect of sales tax. It is in force in more than 130 countries ranging from Sri Lanka to China. India too has a VAT at the Central level (CENVAT), but only for goods.

In the medium to long term, it is my goal that the entire production−distribution chain should be covered by a national VAT, or even better, a goods and services tax, encompassing both the Centre and the States.

The Empowered Committee of State Finance Ministers, with the solid support of the Chief Ministers, has laboured through the last 7 years through successive Governments in the Centre to arrive at a framework acceptable to all States. The Central Government has promised its full support and the UPA Government has also agreed to compensate the States, according to an agreed formula, in the event of any revenue loss. I take this opportunity to pay tribute to the Empowered Committee, and wish the States success on the introduction and implementation of VAT.

Twelfth Finance Commission

On February 26, 2005 I laid before Parliament the recommendations made by the Twelfth Finance Commission (TFC). TFC's recommendations cover tax devolution, grants to States, debt relief, financing of relief expenditure and related matters. States stand to gain considerably by the award.

However, the implementation of the TFC recommendations will put a large burden on Central finances through the period 2005-10, and especially in the first year, 2005-06, when the change to the new pattern will take place. Consolidation and rescheduling of Central loans, reduction in the interest rate and specific grants under different heads will affect both capital and revenue receipts of the Central Government. The total impact on the Central budget for 2005-06 will be approximately Rs.26,000 crore or an addition of three-quarters of a percentage point as a proportion of GDP. Needless to say, this will have an impact on Government's capacity to abide by the Fiscal Responsibility and Budget Management Act (FRBM) in 2005-06.

Defence Expenditure

Last July, in order to catch up with the backlog of expenditure that had not been provided for, I had increased the allocation for Defence to Rs.77,000 crore. I am happy to inform the House that, after a gap, defence expenditure in 2004-05 has matched the Budget Estimates. I propose to increase the allocation for Defence in 2005-06 to Rs.83,000 crore, which will include an allocation of Rs.34,375 crore for capital expenditure.

The current phase of high growth provides us an opportunity that should not be frittered away. We must use this opportunity to improve the fiscal health of the country. We must increase our revenues and reorient expenditure to pay for more outlays on education, health and infrastructure.

Outlays versus Outcomes

At the same time, I must caution that outlays do not necessarily mean outcomes. The people of the country are concerned with outcomes. The Prime Minister has repeatedly emphasized the need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. During the course of the year, together with the Planning Commission, we shall put in place a mechanism to measure the development outcomes of all major programmes. We shall also ensure that programmes and schemes are not allowed to continue indefinitely from one Plan period to the next without an independent and in-depth evaluation. Civil society should also engage Government in a healthy debate on the efficiency of the delivery mechanism.

Subsidies

Following my announcement last July, I placed before Parliament a report on Central Government subsidies. There are three main products that involve large explicit subsidies from the Budget and otherwise. These are food, fertilizer and petroleum. Subsidies provide a measure of protection for the poor and we shall continue to provide subsidies. However, we must now take up the task of restructuring the subsidy regime in a cautious manner and after a thorough discussion.

The Ministry of Agriculture intends to make procurement of food grains more cost effective through decentralized procurement, especially in the non-traditional States, without however impairing the present MSP-based procurement. A Working Group constituted by the Department of Fertilizers is now examining several issues for implementing the next stage of the New Pricing Scheme for fertilizers commencing from April 1, 2006. The fertilizer subsidy bill could be pruned if naphtha and FO/LSHS, now used as feedstock, are replaced by natural gas. As far as petroleum products are concerned, the Government has received the recommendations of the Lahiri Committee, and appropriate decisions have been taken, to which I shall refer in Part B of my speech.

What gives me satisfaction is that, while faithfully attempting to implement the mandate of the NCMP, I have been able to remain on the path of fiscal consolidation. According to the revised estimates for 2003-04, the revenue deficit was 3.6 percent and the fiscal deficit was 4.8 per cent of GDP. The FRBM Act requires a reduction in the two ratios, respectively, of 0.5 per cent and 0.3 per cent every year. I am happy to inform the House that we will achieve this degree of fiscal correction in 2004-05, and the year is expected to end with a revenue deficit of 2.7 per cent and a fiscal deficit of 4.5 per cent of GDP.

XI. BUDGET ESTIMATES FOR 2005-06

Now I turn to the Budget Estimates for the next fiscal.

Plan Expenditure

Plan expenditure for 2005-06 is estimated, on a like-to-like basis, at Rs.172,500 crore. However, the Budget shows Plan expenditure at Rs.143,497 crore, and the balance amount of Rs.29,003 crore will be raised as loans by the State Governments directly, in accordance with the recommendations of the TFC.

Non-Plan Expenditure

Non-Plan expenditure in 2005-06 is estimated to be Rs.370,847 crore, the increase being mainly due to enhanced grants to the States as recommended by TFC.

Revenue Deficit and Fiscal Deficit

Mr. Speaker, Sir, in the Budget Estimates for 2005-06, the total expenditure is estimated at Rs.514,344 crore. I estimate total revenue receipts of the Central Government at Rs.351,200 crore and the revenue expenditure at Rs.446,512 crore. Consequently, the revenue deficit is estimated at Rs.95,312 crore which is equal to 2.7 per cent of the estimated GDP. The fiscal deficit is estimated at Rs.151,144 crore, which is 4.3 per cent of the estimated GDP.

Consequent to accepting the recommendations of the Twelfth Finance Commission and the drastically changed pattern of devolution and funding, there has been a considerable strain in making the Budget for 2005-06 and we have been able to make the correction in the fiscal deficit. I was left with no option but to press the 'pause' button vis-a-vis the FRBM Act and we have been able to make the correction in the fiscal deficit. I am relieved that we have not been forced to go in the opposite direction. I may add that we are perilously close to the limits of fiscal prudence and there is no more room for spending beyond our means. I am confident that we can resume the process of fiscal correction with effect from 2006-07 and achieve the FRBM goals by 2008-09.

PART – B

XII. TAX PROPOSALS

Mr. Speaker, Sir, I shall now present my tax proposals.

I had articulated the UPA Government's principles and our approach to taxation in my Budget speech in July 2004, and, hence, there is no need to repeat them. While adhering to those principles, it is Government's intention, as announced by the Prime Minister, to undertake major tax reforms to improve the tax to GDP ratio, expand the tax payer base, increase tax compliance and make tax administration more efficient.

Indirect Taxes

I shall begin with my proposals on indirect taxes. First, customs duties.

I intend to advance the Government's declared policy of making the customs duty structure closer to that of our East Asian neighbours. Therefore, I propose to reduce the peak rate for non-agricultural products from 20 per cent to 15 per cent.

Consistent with the peak duty rate, I propose to bring down the customs duty rates on capital goods and raw materials as well as correct any inverted duty structures.

In order to promote investment, I propose to reduce the customs duties on selected capital goods and parts thereof to below 15 per cent, to 10 per cent in some cases and to 5 per cent in some others.

For most textile machinery, I propose to reduce the custom duty from 20 per cent to 10 per cent, in order to help the textile industry acquire a competitive edge in the post-quota regime. Similarly, to encourage the food processing industry, I propose to reduce the duty on refrigerated vans from 20 per cent to 10 per cent.

To give a leg-up to the leather and footwear industry, I propose to reduce the customs duties on seven specified machinery from 20 per cent to 5 per cent. The duty on ethyl vinyl acetate (EVA), an input for the footwear industry, is also proposed to be reduced from 20 per cent to 10 per cent.

Pharmaceuticals and biotechnology are sunrise sectors. I propose to reduce the customs duty on nine specified machinery used in these two sectors to 5 per cent.

I also propose to reduce the customs duties on specified parts of battery-operated road vehicles and for printing presses largely used by the media from 20 per cent to 10 per cent.

For primary and secondary metals, I propose to reduce the customs duties from 15 per cent to 10 per cent. Similarly, industrial raw materials such as catalysts, refractory raw materials, basic plastic materials, molasses and industrial ethyl alcohol, which are key inputs to manufacture, will now be liable to a reduced customs duty rate of 10 per cent. On lead, I propose to reduce the duty to 5 per cent.

Coking coal with high ash content attracts a duty of 15 per cent. I propose to bring the rate down to 5 per cent.

Keeping in mind the crucial need to encourage the textile sector, the customs duty rates on polyester and nylon chips, textile fibres, yarns and intermediates, fabrics, and garments are proposed to be reduced from 20 per cent to 15 per cent.

The electronics and telecom sectors merit special attention. On 217 Information Technology Agreement (ITA) bound items, the duty is required to be brought down to nil. Consequently, to provide a level-playing field to the domestic industry, I propose to remove the customs duty on specified capital goods and all inputs required for the manufacture of ITA bound items.

However, I intend to take the power to impose a countervailing duty (CVD) of 4 per cent on all imports to compensate for the State level taxes, in particular the forthcoming State level VAT that is proposed to be imposed on corresponding domestic goods. For the present, I propose to levy a CVD of 4 per cent only on the imports of ITA bound items and their inputs that attract nil duty. Credit for the CVD will be available against payment of excise duty. However, because we have a soft corner for these wares, IT software will be exempt from the proposed CVD.

I do not propose to make any changes in the customs duties applicable to agricultural goods. In fact, I have decided to increase the duty on cut flowers from 30 per cent to 60 per cent. However, at the request of the trade, and since there is little domestic production, I propose to reduce the duty rate on cloves to 35 per cent.

In order to encourage the import of technology to produce pure drinking water, I propose to reduce the import duty on atmospheric drinking water generators from 20 per cent to 5 per cent.

I have some proposals on the Excise side too. Government's intention is to bring as many goods as possible to the CENVAT rate of 16 per cent. Today, 5 items attract 24 per cent. Out of the 5, I have picked out three â€" polyester filament yarn, tyres and air conditioners â€" and I propose to reduce the excise duty on these goods to 16 per cent. Manufacturers of motor cars and aerated soft drinks, the other two items, would have to wait for some more time.

Last year, I took a big step forward to prepare the textile industry to meet the challenges of the post-quota regime. I re-affirm that the CENVAT exemption route for natural fibres will remain in force. I now propose to give independent texturizers the option to avail of the exemption route or pay 8 per cent excise duty with CENVAT credit.

Imitation jewellery now attracts an excise duty of 16 per cent. Since they are products predominantly consumed by the less affluent sections, I propose to reduce the excise duty to 8 per cent. At the same time, expensive and premium jewellery is now manufactured and sold under alluring brand names. On such branded jewellery, I propose to levy an excise duty of 2 per cent. I may clarify that there is no levy on unbranded jewellery, including unbranded gold jewellery.

In order to remove certain distortions in the tax treatment of comparable products, I propose to levy an excise duty on mosaic tiles at 8 per cent and on road tractors for semi-trailers of engine capacity exceeding 1800 cc at 16 per cent. I may clarify that agricultural tractors will continue to remain exempt.

Some sectors deserve relief, since they produce goods for the common citizen. Today, there is a surcharge of Re.1 per kg on tea. I propose to abolish the surcharge. There is also an excise duty of Re.1 per kg on refined edible oils and Rs.1.25 per kg on vanaspati. I propose to abolish both levies and fully exempt the two items.

Even while protecting the handmade sector that makes matches, it is necessary to give some relief to the mechanized and semi-mechanized sectors. Hence, I propose to reduce the excise duty from 16 per cent to 12 per cent on matches made by these two sectors. Hand-made matches are fully exempt from excise duty and, therefore, will continue to enjoy adequate protection.

I would like to provide some tax relief to the small scale industry (SSI). Hence, I propose to raise the ceiling for SSI exemption based on turnover from the level of Rs.3 crore per year to Rs.4 crore per year. Further, SSI units will now have only two options: either full exemption on the first clearance of Rs.1 crore or normal duty on the first clearance of Rs.1 crore with CENVAT credit.

I propose to restore the excise duty rate on iron and steel to the normal level of 16 per cent. This should have little effect on prices because the entire duty is modvatable by most categories of consumers.

I propose to increase the specific duty on molasses from Rs.500 per MT to Rs.1000 per MT to adjust partially for a hefty increase in molasses prices. I also propose to increase the specific duty on cement clinkers from Rs.250 per MT to Rs.350 per MT per day as an anti-avoidance measure.

The National Highways Development Project requires very large resources. In order to raise additional resources, I propose to increase the cess on petrol and diesel by 50 paise per litre. The additional resources will be earmarked exclusively for the national highways, and a suitable amendment is being proposed to the Central Road Fund Act, 2000.

The levy of an education cess has been widely applauded. The health sector demands similar treatment. What better way is there to fund health care than tax those goods which are health hazards? I, therefore, propose to raise some additional resources and allocate the proceeds to finance the National Rural Health Mission. Accordingly, I propose to increase the specific rate on cigarettes by about 10 per cent and impose a surcharge of 10 per cent on ad valorem duties on other tobacco products including gutka, chewing tobacco, snuff and pan masala.

प्रो. राम गोपाल यादव (सम्भल) : इसको ज्यादा बढाइए ।

SHRI P. CHIDAMBARAM : However, biris will not be subject to this levy.

Finally, there is the issue of taxes on petroleum products. After examining the Lahiri committee's report, I propose to make major changes in the customs and excise duty rates. The customs duty on crude petroleum will be reduced from 10 per cent to 5 per cent.

On LPG for domestic consumption and on subsidized kerosene, the customs duty will be zero per cent. On both products, the excise duty will also be zero per cent.

On other petroleum products, including motor spirit (MS) and diesel (HSD), I propose to reduce the customs duty from the current level of 20 or 15 per cent to 10 per cent. I also propose to fix the excise duties on petrol and diesel as a combination of ad valorem and specific duties.

The proposed changes are revenue neutral, and I have been assured that there will be no increase in the retail prices of these products as a result of the changes in the duty structure.

Consequent upon the changes made in customs and excise duties, the drawback rates for exported goods will be reviewed and modifications, wherever necessary, will be notified by April 30, 2005.

Hon'ble Members are aware that many goods are chargeable to excise duty on a value with reference to their maximum retail price (MRP), after allowing suitable abatement. The system of quantifying the abatement should be made transparent. There should also be a mechanism to review the rate of abatement to reflect changed circumstances. Hence, as a trade facilitation measure, I propose to set up an advisory committee to advise the Government on the extent of abatement for both excise duty and service tax.

The other indirect tax is service tax. Since the services sector accounts for about 52 percent of the GDP it is necessary to cast the net wide.

Last July, I raised the rate of service tax to 10 per cent. I propose to maintain that rate.

I also propose to grant relief to small service providers. Accordingly, I propose to exempt from service tax those service providers whose gross turnover does not exceed Rs.4 lakh per year. According to my calculation, 80 per cent of the present service tax payers will gain from the exemption and go out of the service tax net.

I propose to include some additional services in the service tax net. New services to be covered include pipeline transport of goods; site formation, demolition and like services; membership fees of clubs and associations; packaging and specialized mailing services; survey and map making services; dredging services in rivers and harbours; cleaning services for commercial buildings and similar premises; and construction of planned residential complexes, with more than 12 dwelling units, developed by builders.

I also propose to expand the coverage of certain services, but I shall not burden you with the details.

Direct Taxes

I shall now turn to my proposals on direct taxes.

Last July, as an interim measure, I made a provision under which a person with a taxable income of Rs.100,000 would not be required to pay any income tax. About 1.4 crore assesses got relief. I promised to revisit the subject in this Budget.

As part of a major overhaul of direct taxes, I propose to alter the tax brackets after taking due note of the universal demand of Members of Parliament and the need to provide stability in the medium term.

Accordingly, I propose that the new tax brackets and the new rates will be as follows:

Up to Rs.1 lakh across the board .. nil

Rs.1 lakh to Rs.1.5 lakh .. 10 per cent

Rs.1.5 lakh to Rs.2.5 lakh .. 20 per cent

Above Rs.2.5 lakh .. 30 per cent

Further, the level at which the surcharge of 10 per cent will apply will be raised to Rs.10 lakh taxable income. Hon'ble members will be happy to note that tax payers in every tax bracket will gain from my proposal.

Besides, I propose to fix the threshold exemption level as against 1 lakh for all for women at Rs.1.25 lakh and the exemption level for senior citizens at Rs.1.5 lakh. These revised exemption levels will be in lieu of the prevailing tax rebate provisions. I hope I will be twice blessed by women and senior citizens.

Given the higher exemption limits and the scaling up of tax brackets, the need for a separate personal allowance does not exist. Therefore, in conformity with growing international practice, I propose to remove the standard deduction.

There is now a plethora of exemptions, ostensibly intended to promote savings. Some exemptions are based on the principle of deduction from taxable income and some exemptions are based on the principle of tax rebate. I believe the time is ripe to clean up these exemptions. At the same time, it is necessary to encourage savings, and tax relief is a method to induce people to save. Further, I think that the State must be neutral between one form of saving and another, and allow the tax payer greater flexibility in making savings/investment decisions.

For all these reasons, in addition to the basic exemption limits, 1 lakh, 1-25 lakh or 1-5 lakh, I propose to allow every tax payer a consolidated limit of Rs.1 lakh for savings which will be deducted from the income before tax is calculated. All prevailing sectoral caps will be removed. The rebate under Section 88 is being eliminated and Section 80L is being omitted to reflect the new regime.

In addition to the sum of Rs.1 lakh, the following six deductions will continue to receive the same tax treatment as prevails today:

i) interest paid on housing loan for self-occupied house property;

ii) medical insurance premia;

iii) specified expenditure on disabled dependant;

iv) expenses for medical treatment for self or dependant or member of a HUF;

v) deduction in respect of interest on loans for pursuing higher studies; and
vi) deduction to a person with disability.

This will continue.

Tax treatment of savings is a complex issue but we can benefit from the best international practices in this regard. We have already introduced EET-based taxation in the defined contribution pension scheme applicable to newly recruited government servants. Before we fully migrate to the EET system for all kinds of savings, it is necessary to resolve a number of administrative issues. Hence, without making any change for the present, I propose to set up a committee of experts that will work out the road map for moving towards an EET system.

Bowing to popular demand, I propose to continue the exemption from tax on interest earned on accounts maintained by Non Resident Indians.

While the tax reliefs that I have given today should warm the hearts of the tax payers, I have also an obligation to raise resources, especially to meet the large requirements of NCMP-mandated programmes.

I have looked into the present system of taxing perquisites and I have found that many perquisites are disguised as fringe benefits, and escape tax. Neither the employer nor the employee pays any tax on these benefits which are certainly of considerable material value. At present, where the benefits are fully attributable to the employee they are taxed in the hands of the employee; that position will continue. In addition, I now propose that where the benefits are usually enjoyed collectively by the employees and cannot be attributed to individual employees, they shall be taxed in the hands of the employer. However, transport services for workers either a conveyance allowance or bus transport service and canteen services in an office or factory will be outside the tax net. The tax is not a new tax, although I am obliged to call it by a new name, namely, Fringe Benefits Tax. The rate will be 30 per cent on an appropriately defined base.

I believe I have given a large measure of relief to personal income tax payers, and I hope all sections of the people and all members of the House are happy. This leads me to corporate income tax.

The corporate income tax rate, the surcharge thereon and the rates of depreciation are inter-linked. Any reform would have to address all three elements. The international best practice is to provide for depreciation at rates that would enable the investor to replace the asset before its economic life ends. In India, in addition to the depreciation rate we have allowed an initial depreciation in order to encourage new investment. Hon'ble members may recall that, last July, I reduced the condition relating to increase in installed capacity from 25 per cent to 10 per cent.

I am also obliged to keep in mind that a number of profit making companies continue to pay low tax, even if well within the law, by taking advantage of liberal depreciation rates and of exemptions and incentives. Moreover, the current depreciation rates lean towards employing capital rather than labour.

There is also a demand that corporate tax rates should be aligned with the highest marginal personal income tax rate.

After careful consideration of the pros and cons, the interest of the revenue and the need to give the corporate sector a measure of relief, I propose the following tax structure.

For domestic companies, the corporate income tax rate will be 30 per cent. There will also be a surcharge of 10 percent. The rate of depreciation will be 15 per cent for general machinery and plant, but the initial depreciation rate will be increased to 20 per cent.

The corporate sector will find that the proposed tax structure is fair, gives them relief of nearly 3 per cent in the tax rate, encourages new investment and ensures equity among all sections of corporate tax payers.

As a further measure of relief, I propose to remove the requirement of 10 per cent increase in installed capacity for availing of the benefit of initial depreciation.

To encourage technological upgradation, I propose to reduce the withholding tax on technical services from 20 per cent to 10 per cent.

I also propose that credit will be allowed for the Minimum Alternate Tax (MAT) paid under Section 115 JB of the Income Tax Act.

I do not propose to make any changes in the tax regime applicable to foreign companies.

Last July, I had indicated that I would review the terminal dates on exemptions given for specific purposes. Accordingly, I propose to extend the terminal date, in the following three cases, from March 31, 2005 to March 31, 2007:

â€¢ Weighted deduction of 150 per cent of expenditure on in-house research and development facilities of companies engaged in the business of biotechnology, pharmaceuticals, electronics, telecommunication, chemicals or any other notified product;

â€¢ Deduction of profits of new industrial undertakings in Jammu & Kashmir;
â€¢ 100 per cent deduction of profits of companies carrying on scientific research and development and approved by the Department of Scientific and Industrial Research.

In deference to the request from Air India and Indian Airlines, I propose to extend up to September 30, 2005 the exemption from tax on agreements to acquire aircraft or aircraft engines on lease.

The securities transaction tax (STT) has stabilized, but the rates are widely perceived to be too low. I, therefore, propose to make a very nominal increase in the rates for all categories of transactions. Thus, a day trader who is liable to pay STT at 0.015 per cent will now be liable to pay at 0.02 per cent. This small increase should not ruffle anyone's feathers. This nominal rate of increase will apply to all categories.

As Hon'ble Members are aware, there have been significant developments in the past decade in the capital market including the introduction of trading in financial derivatives. We have also established a transparent system of trading with adequate safeguards for audit trail. Hence, I propose to amend the Income Tax Act to provide that trading in derivatives in specified stock exchanges will not be treated as "speculative transactions" for the purposes of the Income Tax Act.

I propose to amend the one-in-six criteria for filing income tax returns. Mobile telephone will be removed. Instead, payment for electricity of more than Rs.50,000 per year will be included as a criterion for filing a return of income.

The NCMP requires the Government to introduce special schemes to unearth black money and assets. I am obliged to carry out the mandate, but without giving undeserved relief or an amnesty. I am concerned about large cash transactions, especially withdrawals of cash, when there is no ostensible purpose to withdraw such large amounts of cash. These cash withdrawals leave no trail, and presumably become part of the black economy. Therefore, I propose to introduce two anti tax-evasion measures: Firstly, I propose to levy a tax on withdrawal of cash on a single day of over Rs.10,000 or more only from banks at the rate of 0.1 per cent. Thus, a person withdrawing Rs.10,000 in cash per day would have to pay a small sum of Rs.10.

SHRI HARIN PATHAK (AHMEDABAD) : How can it be?â€¦â€¦. (Interruptions)

SHRI P. CHIDAMBARAM : Kindly listen to me.. (Interruptions) Can you listen first?...(Interruptions) You have not understood me what I have saidâ€¦.. (Interruptions) Please understand firstâ€¦...(Interruptions)

MR. SPEAKER : Everybody is affected. He will protect them in due time.

â€¦â€¦. (Interruptions)

SHRI P.CHIDAMBARAM: They have not understood as yetâ€¦â€¦.

(Interruptions)

MR. SPEAKER : When you speak on it, you can ask him.

â€¦â€¦. (Interruptions)

SHRI P. CHIDAMBARAM : Just listen to me first. I am repeating it, "I propose to levy a tax on withdrawal of cash on a single day of over Rs. 10,000". â€¦. (Interruptions)

MR. SPEAKER : Let him finish. Kindly listen to him.

â€¦â€¦. (Interruptions)

SHRI P. CHIDAMBARAM : Listen to me first. â€¦. (Interruptions)

MR. SPEAKER : Please let him finish. You can oppose it later.

SHRI HARIN PATHAK : What happens if it is white money?

â€¦â€¦.. (Interruptions)

SHRI P. CHIDAMBARAM : You must listen to me first. â€¦.. (Interruptions)

Obviously, they do not understand what is going onâ€¦. (Interruptions)

MR. SPEAKER : Nothing else will be recorded.

(Interruptions)*â€¦.

MR. SPEAKER : Hon. Members, you are entitled to hold your own view. You will have full opportunity then.

â€¦â€¦.. (Interruptions)

MR. SPEAKER : Shri Harin Pathak, you will have full opportunity to oppose it during the discussion. I am sure, the hon. Leader of the Opposition will give you enough opportunity.

SHRI P. CHIDAMBARAM : You cannot interrupt. You have to listen first. â€¦.

(Interruptions)

MR. SPEAKER : Mr. Minister, you carry on. Nothing will be recorded except the speech of the hon. Minister of Finance.

(Interruptions)*â€¦.

SHRI HARIN PATHAK : How can you say? â€¦. (Interruptions) I object to this. Why should I pay when I withdraw my own money? â€¦. (Interruptions)

MR. SPEAKER : I earnestly appeal to all the hon. Members. You are entitled to comment; and at an appropriate time, you do it.

â€¦â€¦.. (Interruptions)

MR. SPEAKER : It is a Budget Speech. The country's Budget is being presented. You are not expected to agree to everything.

â€¦. (Interruptions)

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* Not Recorded

SHRI P. CHIDAMBARAM : Secondly, I propose to require banks to report to the Government all deposits which are exempt from TDS on interest. I intend to observe the results of these steps before I propose any further measures. As I have said, these cash transactions leave no trail and this is an anti-black money measureâ€¦â€¦.. (Interruptions)

Many administrative reforms are underway in the Department of Revenue. Among them are the tax information network (TIN) and the on-line tax accounting system (OLTAS).

As a measure of facilitation, I propose to follow international practice and establish large taxpayer units (LTUs). To begin with, these units will be set up in major cities. I would like to invite large tax payers, whether of corporate tax or income tax or excise duties or service tax, to participate in the programme and avail of the single window service. For small taxpayers, I propose to set up Help Centres in cooperation with industry associations, professional bodies and NGOs.

I have received many suggestions on amendments to the direct tax laws and the indirect tax laws. I have decided to accept some suggestions that require to be acted upon immediately, but I do not propose to burden the Finance Bill with those changes. Instead, I intend to introduce a separate Bill for that purpose during this session. In due course, I intend to place before Parliament a revised and simplified Income Tax Bill.

My tax proposals on direct taxes are expected to yield a gain of Rs.6,000 crore. On the indirect taxes side, they are broadly revenue neutral.

XIII. CONCLUSION

Mr. Speaker, Sir,

One of India's proudest sons, Dr Amartya Sen, argues in his book "Development as Freedom" that development is a process of expanding the real freedoms that people enjoy. He says, "Growth of GNP or of individual incomes can, of course, be very important as *means* to expanding the freedoms enjoyed by the members of the society. But freedoms depend also on other determinants, such as social and economic arrangements (for example, facilities for education and health care) as well as political and civil rights." The UPA Government accepts this ethical dimension to the discussion of economic issues, and in this Budget I have attempted to reflect that dimension. More or less the same idea was articulated two thousand years ago by Saint Tiruvalluvar who said:

"Pini Inmai Selvam Vilaivu Inbam Emam

Ani Enba Nattirkku Iv Iyndhu"

(Health, wealth, produce, the happiness that is the result, and security

These five, the learned say, are the ornaments of a polity)

This Budget, Mr. Speaker, is an attempt to lay down a path in which growth and equity I repeat, growth and equity will reinforce each other and build a new India.

Sir, with these words, I commend the Budget to the House.