FRIDAY, DECEMBER 26, 2003

A LANDMARK WITH CHALLENGES

THE ACCUMULATION OF foreign exchange reserves of $100 billion is a landmark event that symbolises a sea change from an era when India had to live a hand-to-mouth existence in the external sector of its economy. During much of the first four decades after Independence, India had to worry about the availability of dollar resources to pay for imports. Today the country has the sixth largest reserves in the world. In December 1990, at the height of a balance of payments crisis, reserves could pay for only three weeks of imports. Today India's dollar holdings provide import cover for as many as 15 months. It can be said without any exaggeration that the country no longer faces a foreign exchange constraint. Much of the credit for this transformation should go to the Reserve Bank of India, which has been following a judicious approach in managing the balance of payments since the early 1990s. The RBI has overseen the maintenance of more than adequate reserves, ensured a reasonable level of stability in the exchange rate, and has successfully warded off potentially major threats like the fallout of the East Asian crisis of 1997-98.

In a world of unpredictable financial crisis, developing countries are obliged to protect themselves against the "herd" mentality that influences the behaviour of foreign investors. The only protection possible is a bank of a large stock of liquid resources in global currencies; India now possesses that kind of security. But there is a risk in, and a cost to, the holding of large reserves. The risk is in attracting potentially volatile capital and the cost is in tying up substantial resources in low-yielding investment. During the past decade, a variety of inflows on the current and capital account have contributed to the accretion of India's dollar holdings. Over the past two years, however, capital receipts have become more important. A substantial proportion of these inflows has been driven by arbitrage and the prospect of a further appreciation of the rupee. While some of the avenues for interest arbitrage have been plugged in recent months, the flood of capital has not receded. Foreign institutional investment in the stock market has become the single largest source of foreign capital. The risk is that any sign of volatility in currency rates (especially a rupee depreciation) will precipitate a drying up of inflows and an outflow of capital. All this puts additional pressure on the RBI — which has to make major purchases of foreign currency as it attempts to balance the interests of both exporters and importers, hold the rupee steady, and simultaneously remove excess rupee liquidity from the economy.

The dollar resources of the RBI are mainly invested in U.S. Government securities. The cost of such investment, in terms of low yields, has prompted calls to make the rupee fully convertible so that the reserves can be brought down substantially. The central bank has been taking a number of small steps to facilitate a freer movement of capital, but has wisely stopped short of full convertibility. The most important lesson of the many financial crises of the 1990s is that full convertibility in a developing country can cause more problems than provide tangible benefits. Finally, crossing the milestone of $100 billion means that a new challenge awaits India in the global arena. The U.S. has been exerting pressure on Japan and China — the countries with the largest reserves — to let their currencies appreciate so that it can bring down its trade deficit. India can now expect to face similar demands on the rupee. All this underlines the need for a coordinated Asian strategy.

THE HINDU 2 6 DEC 2003

India glittering: Forex reserves cross $100 bn

By Priya Ranjan Dash
TIMES NEWS NETWORK

New Delhi: A century and going strong. India crossed the historic landmark of $100 billion in foreign exchange reserves on Friday. "Period of great confidence," finance minister Jaswant Singh declared on Saturday.

"Self-reliance, for which we had worked for decades since Independence, has been reached," Mr Singh said, pledging to push ahead with "bolder economic reforms" to achieve significantly higher growth.

The current levels of reserves keep India firmly on the course to full convertibility of the rupee. However, other crucial tests such as a low level of public debt and a strong banking sector have to be passed before this can be achieved, according to chief economic advisor P.K. Lahiri.

Days were when forex shortages made the government impose draconian controls over India's entreprenuership and ingenuity, creating criminals out of perfectly good citizens. Just 13 year's ago, in December 1990, forex reserves had plummeted to less than $1 billion, insufficient to fund even a fortnight's imports.

The foreign exchange crunch following the first Gulf War and the oil crisis forced an external payments crisis for India. The Reserve Bank of India was even compelled to mortgage reserve gold abroad. A virtual import ban ensued, not letting even necessities to be imported. A 200 per cent bank margin was slapped on funds for imports.

India had to rush to the IMF for getting contingency loan. The country also had to go in for a steep two-step devaluation of the rupee.

Asian deep pockets

- Japan: $644 billion
- China: $401 billion
- Taiwan: $203 billion
- S. Korea: $153 billion

(Approx forex reserves in November-end, 2003)

The reserves hitting a century signifies the long way India has travelled since then. ONGC Videsh had to let go its privileged rights on a highly potential Vietnamese oil and gas field only because it could not get a meagre $7,000. Today, it does not stop to think before putting in billions of dollars in oil fields around the globe.

The country has added $94 billion to the reserves since March 1991. The reforms that began then have unleashed the entrepreneurial spirit of Indians and made the country an attractive investment destination for foreign direct and equity investors. The reserves have not been built by hot money, nor by foreign borrowings.

In the last 13 years, India's foreign debt has increased by only $20 billion but the reserves are up by $94 billion. India is Asia's third largest economy and it now has the fourth largest forex reserves after Japan, China, Taiwan and South Korea. The reserves, as the finance minister said, would contribute to national security and would provide much greater autonomy to conduct public policy. They will also enable Indian corporates and banks to tap resources abroad on more favourable terms than ever before.

The accretion to India's reserves has been steady since 1997 but particularly strong this year. During 2003 alone, $30 billion has been added, taking reserves to $100.048 billion on Friday. With mounting reserves, Indians have been enjoying ever easier access to forex and greater freedom to command foreign goods, services, education, treatment and travel.

There is, in fact, now a problem of plenty. The RBI has been acknowledged globally for the job it has done in managing extra-ordinary fund inflows. India remained unaffected by the 1997 East Asian financial turmoil. This year, FIIs alone have pumped in $7 billion into the equity and debt market.

THE TIMES OF INDIA 21 DEC 2003

DISINVESTMENT DEBATE-II

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A Government That Fears Parliament

By AK ROY

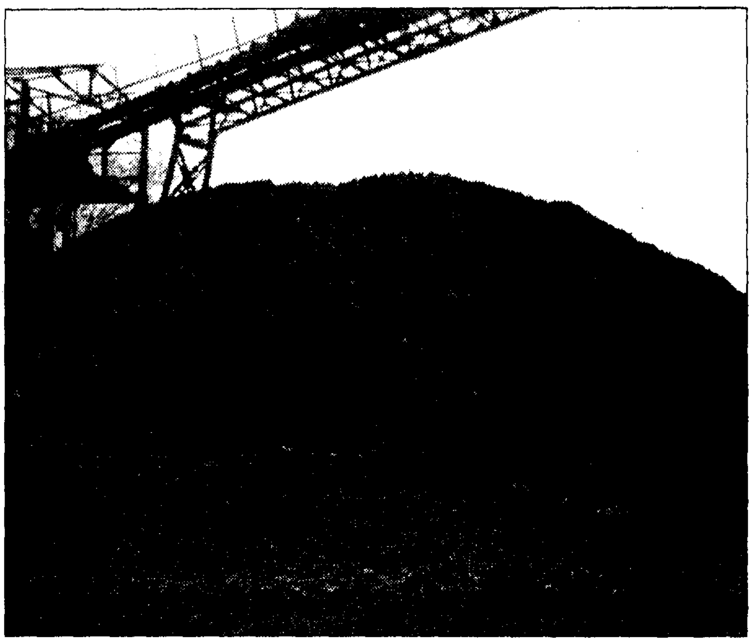
The apprehensions expressed by the minister of disinvestment are not without basis specially considering the possible effect on other PSUs. While this will affect the whole process of disinvestment and working of the disinvestment ministry involving many PSUs, the case of coal deserves special mention being one of the biggest PSU in terms of both its size, importance and manpower, providing 60 per cent of our energy requirement. The coal industry like the oil has also become the member of the family of PSUs through the Act of Parliament, namely Coal Mines Nationalisation Act 1973. The Act says categorically that "no person, other than the central government or a government company or a corporation owned, managed or controlled by the central government shall carry on coal mining operation in India (Section 3).

Outsourcing

The issue has assumed special relevance as along with the Banking Company's Act the Supreme Court has referred to the Coal Mines Nationalisation Act, 1973 in its judgment on the oil PSUs. It may be pointed out that the nationalised coal industry which was considered in a hopeless condition is on the path of revival under the public sector earning profits of more than Rs 2,500 crores last year. So the eye of the private sector is on this PSU also and a proposal of denationalisation is pending before Parliament to give entry to private players by amending the parent Act.

So far all attempts to amend the Coal Mines Nationalisation Act have remained unsuccessful because of the stiff resistance both within the House and outside which includes threat of a countrywide indefinite strike by coal workers. This is also expected if attempts are made to amend the Act on Oil PSUs. So the government is after some roundabout way of introducing at least partial privatisation without amending the Coal Nationalisation Act and inviting a debate. One such way now discovered and found convenient is called "outsourcing" now opposed by all the unions of coal workers which will face further rough weather after the Supreme Court's judgment on disinvestment. In the coal industry the major point of conflict revolves round "outsourcing" though the management is trying hard to convince the workers that it is not privatisation.

But what is outsourcing? It is nothing but the use of private contractors or private agencies in raising and loading coal and removing the extra burden under the thin veil of public sector management. This is a device of privatisation by the backdoor circumventing the Nationalisation Act. The management was first shy to use this backdoor method but after the gradual tilt of the government towards privatisation the method is openly proposed to earn immediate profit and for revival. The rate with which the process of outsourcing is being used in three companies of the nationalised coal industry, namely ECL, BCCL and CCL soon outsourcing will be the main source of production and the logic that is being put forward cuts the very basis of nationalisation leading to its total privatisation.



Taking advantage

In this connection it may be mentioned that before nationalisation, contractors were doing jobs from raising and loading of coal to overburden removal with some nominal owner at the top getting some income without any role in the management. With outsourcing even without disinvestment the actual control of the coal industry will pass to the contractors who mostly belong to the mafia and have become active at least in the Dhanbad coalfield after getting the scent of privatisation.

However, that system in the past failed miserably leading to nationalisation of the coal industry. The main ground for outsourcing is less cost of production and easy profit as the contractors make underpayment to workers, i.e., less than the official rate which the departmental workers get showing the correct payment on paper. This is totally illegal creating black money, one of the major causes of violence in the coal belt. Such a clandestine practice depriving the workers of their dues is working taking advantage of the falling bargaining power of the workers due to unemployment. Should a government company encourage this?

One of the reasons for making the public sector is to give fair wages to workers. Wage boards etc were created to make the private sector emulate the public sector. But in the name of globalisation and competition, labour is to be squeezed, public sector is to follow the private sector, bare wages will replace fair wages and outsourcing will oust the official source.

This is definitely not the spirit and letter of the Coal Mines Nationalisation Act, specially when the Supreme Court's judgment on oil PSUs has pointed out that not only the expressed provision of the Act but the implied one in the preamble and in its aims and objects of the Act is binding.

An Act is not only a bundle of words; it carries some message, the essence. The essence of the Coal Mines Nationalisation Act is definitely not outsourcing or surreptitious use of dubious contractors and clandestine operations.

It may also be pointed out that a notification was issued by the government in 1975 completely banning use of contractors in raising and loading of coal and overburden removal. Neither has the Act been repealed nor has the Notification been withdrawn and the Regional Labour Commissioner, a government servant, is sending a prosecution proposal against the government company without any effect. Section 30 of the Coal Mines Nationalisation Act contains a penalty provision: "Any person who engages or causes any other person to be engaged in winning and mining of coal from the whole and part of the land - shall be punishable with imprisonment for a term which may extend to three years and also with fine which may extend to twenty thousand rupees." But when the master is committing the offence can a servant punish him?

Parliament

It is this vast question that the Supreme Court's judgment has raked up which is not only meant for oil or coal PSUs but most of the economic activities of the government. The Supreme Court's judgment has suggested that if the law is not suitable it can be changed, if the method does not work it can be altered, but it should not happen that something will remain in the statute and something else will be followed. The court cannot decide what policy the government should follow but Parliament can, representing the sovereign will of the people and the court is empowered to see that Parliament is not bypassed.

A court fearing government is welcome but the Parliament fearing government must go. The uneasiness expressed by the government over the court's judgment on disinvestment of oil PSUs asking it to go to Parliament has revealed that this is a Parliament fearing government, at least on a major policy matter. The same is revealed in the outsourcing of coal which is not according to the letter and spirit of the Coal Nationalisation Act. A law breaking government is much more dangerous than law breaking people.

If necessary there can be a referendum on the point of public sector and disinvestment but there should not be any deception. Getting votes in the name of Ram and swadeshi and then inviting MNCs and selling PSUs must end. A country whose Constitution starts with the words "Constitute India into a sovereign socialist secular democratic" cannot dance to the tune of mercantile misorder for long.

(Concluded)

DISINVESTMENT DEBATE-I

Government In Search Of A Short Cut

By AK ROY

The Supreme Court is in the news striking left and right sparing no one and upsetting all. Only some time back it came out with an anti-strike judgment backing the Jayalalitha government of Tamil Nadu, infuriating the Left and even provoking the Attorney General to come out with a statement. Now by pronouncing judgment staying the proposed disinvestment of the oil PSUs, it has put the Right to discomfiture. Even the court fearing ministers are in the mood to revolt. While the judgment of the court on strikes like the earlier one on bandhs is being fought in the streets, that on disinvestment is having wide repercussions in the corridors of power.

People's view

The latest report is that the Supreme Court has been persuaded to review its judgment but the debate it has initiated is unlikely to stop so easily. On the contrary, it confirms the impression that the people are not in favour of disinvestment and the government wants to avoid a discussion in Parliament on the eve of elections and wants the court to bail it out.

Secondly, the judgment has a bearing on transparency in the functioning of the government. Its proposition is, if any concern has come into existence because of an Act in Parliament like the oil PSUs, it has to go through Parliament even if it is to be wound up. It sounds very logical, so why the uneasiness in the government? The Supreme Court has not passed any opinion on disinvestment but only stressed the method.

The judgment quoted Pieric Guislain's book entitled, *The Privatisation Challenge*, published by the World Bank: "Whether a country needs to enact a privatisation law or can do without one depends on several factors, the political situation and the legal tradition of the country, the scope of its privatisation programme and the nature of the enterprise to be privatised. Some countries have opted to enact privatisation laws even when privatisation could have been implemented without amending the existing legislation. This may have the advantage of mobilising explicit political sup-

port and commitment in favour of privatisation from the very start. It may confer a stronger, cleaner mandate on the government and make them more accountable. On the other hand, a privatisation law involves risks...". And in India the biggest risk is, if put to vote, it may be defeated in the House and create a storm outside threatening the very existence of the government. So the government is hesitant.

Privatisation

It may be noted that though the term disinvestment is new, the people know it means privatisation designed to end the public sector and, however wasteful the public sector units may become or are shown to be, the people have some attachment towards them. Planning and the public sector were conceived during the freedom struggle as a way to develop a self-reliant economy and the first national planning committee was formed in 1938 when Netaji Subhas Chandra was Congress president. There was a pledge which was given shape after Independence. In 1951, the beginning of the first five-year plan, the number of PSUs was five with investment of Rs 29 crores, which became 48 and Rs 956 crores in the second, 84 and Rs 3,897 crores in the third, 122 and Rs 6,257 crores in the fourth, 179 and Rs 18,250 crores in the fifth, 215 and Rs 42,643 crores in the sixth and 257 and Rs 99,315 crores in the seventh (1990) and reaching 262 and Rs 265,038 crores. But after 1992 and adoption of new economic policy of privatisation, liberalisation and globalisation the reverse trend started with disinvestment. Between 1991-02 an asset of Rs 25,800 crores of the public sector was sold and that too at a throwaway price and in the Tenth Five-Year Plan (2002-07), the target is of Rs 76,000 crores.

So disinvestment is taken as turning the wheels of history backwards. The PSUs were created to lead industrialisation. If that is to be discarded as a white elephant, the only elephant left is the multinational companies and whatever may be its colour, its reputation lies in leading de-industrialisation and creating markets. So the choice is grim - between PSUs and MNCs, between import substituting industrialisation and import-oriented de-industrialisation, between independence and dependence. And despite all-out support to the latter in the media and from the elite, the people's inclination for the latter still cannot be taken for granted.

No challenge

However, the Supreme Court after starting this potentially dangerous debate has remained non-committal without taking sides either for or against the disinvestment and its judgment concludes: "There is no challenge before the court as to the policy of disinvestment. The only question raised before us whether the method adopted by the government in exercising its executive powers to disinvest HPCL and BPCL without repealing or amending the law is permitted or not. We find that on the language of the Act such course is not permissible at all".

Such a harmless statement should not have upset any government that is really armed with the mandate of privatisation even in the World Bank's standard. The present NDA government at the Centre is armed with only one mandate and that does not include all its constituents — to construct the Ram Mandir at Ayodhya. But but after coming to power, it has started demolishing the PSUs, once called by Nehru as the modern temple of India. It is here that the trouble lies. The alarm raised by the government has further highlighted this weakness. In fact, the present government at the Centre has no mandate of any kind to privatise any PSUs and so is in search of a short cut to do that in a hurry avoiding a debate in Parliament and discussion among the public.

(To be concluded)

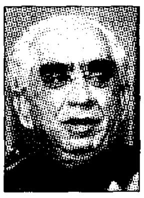
The author is former member of Parliament.

THE STATESMAN 9 DEC 2003

Upbeat govt to push ahead with reforms

TIMES NEWS NETWORK

New Delhi: Emboldened by the results of the state assembly elections, the Vajpayee government on Friday signalled that it would push ahead with economic reforms with greater vigour.



J. Singh

Finance minister Jaswant Singh asserted here that the government will present a "full budget" at the end of February as schedule, adding that reforms would be given a renewed thrust.

"There is a popular support for reforms," commerce and industry minister Arun Jaitley also told reporters.

The FM sought to put at rest speculations of an "interim budget" or a "vote-on-account", saying that Prime Minister Vajpayee had already made it clear that there would be no early Lok Sabha elections.

Mr Singh said the budget will place emphasis on the agriculture sector to usher in a "second green revolution". He said key elements of this must be the diversification of agriculture, development of wasteland, capital expenditure, growth and expansion of irrigation and value-addition in farm produce.

PTI adds: In an interview to the London-based *Financial Times*, Mr Singh said fiscal consolidation was crucial for India to move on to the higher growth path of over seven per cent.

The combined fiscal deficit of central and state governments was almost 11 per cent of the GDP, Mr Singh said stressing, "India stands on the verge of expolsive economic growth. But fiscal reform is essential."

Demat system for stamp papers soon

New Delhi: The central government will come up with a system within the next 6-8 months under which stamp papers will be in dematerialised (demat) form like the system of dematerialisation introduced for stocks and shares, finance minister Jaswant Singh told reporters on Friday.

The demat system will be a safe, secure and easy to transact, the finance minister said.

He declined to comment on the allegation that his ministry sat over for more than a year a letter from the Karnataka chief minister seeking action on the stamp paper scandal. TNN

THE TIMES OF INDIA 6 DEC 2003

AN ECONOMIC REVIEW

THE FINANCE MINISTRY'S mid-term review of the Indian economy is a voice of moderation amidst the many extravagant predictions of double digit growth that have been made by independent think tanks at home and abroad. The official assessment of the performance of the Indian economy in 2003-04 does not however completely avoid making unrealistic forecasts. The Reserve Bank of India's perspective, issued a fortnight ago, remains the more sober and realistic view of the short-term outlook for the economy. Where the RBI sees GDP in the current fiscal year growing by between 6.5 and 7 per cent, the Finance Ministry sees growth exceeding 7 per cent. The acceleration in economic growth in 2003-04 is being driven and facilitated by the good southwest monsoon: normal levels of precipitation will lead to a substantial jump in agricultural production and higher farm incomes will boost demand for industrial products and services. The question is whether the overall recovery will be substantial or only modest. The trends in the first half of the year were of a modest acceleration in output. While the situation may change dramatically during the second half of 2003-04, the mid-term review errs in not paying more attention to how the economy performed between April and September 2003.

To be fair to the Finance Ministry, its review acknowledges that the recovery this year will be similar to the turnaround in the past when a good monsoon came immediately after a poor one. Yet even the Government's optimistic forecasts are of GDP growth that will be less than in 1967-68, 1975-76, 1980-81 and 1988-89, when the economy grew well above 7 per cent as agriculture benefited from the return of a normal monsoon. This, of course, is not a very accurate comparison, since the share of Indian agriculture in GDP is now far less than it was even a decade ago. However, the mid-term review is guilty of excessive optimism elsewhere. It sees foodgrain production this year registering a new peak of 212 million tonnes, although the first estimates of the kharif (monsoon) crop are of a harvest of 108 million tonnes, which is less than the record production of 111.5 million tonnes in 2000-01. This means that the rabi (winter) crop will have to be the highest ever and compensate for the somewhat modest recovery in kharif production. The flow of bank funds to the commercial sector has increased more slowly so far this year than in 2002-03, the core infrastructure sectors are showing a slower rate of growth, exports are rising at half the rate of last year, and the pick-up in industrial production has been modest. In spite of these trends — all noted in the mid-term review — the Finance Ministry expects a substantial acceleration in industrial activity. The months ahead may indeed witness a dramatic improvement, but as of now there is little concrete evidence of such a development.

The quarterly review of the Centre's finances, which the Government is obliged to present under the Fiscal Responsibility Management Act, indicates that after two quarters the fiscal situation is better than last year. A higher proportion of revenue receipts, including taxes, was collected by end-September 2003 than at the same point of time last year. This is true as well of expenditure, which is by and large adhering to the budgetary projections. But there are some discordant trends. While direct tax and customs duty collections have been increasing rapidly, excise duty revenue has been growing slowly. There is then the revenue deficit, always the weak spot in Central Government finances, which after six months was 37 per cent wider than in the corresponding period of last year and was already 58 per cent of what has been budgeted for during all of 2003-04.

THE HINDU 19 NOV 2003

FINANCIAL SERVICES / IFC, ADB KEEN TO TAP MARKET

India can become a regional hub — Jaswant

By Our Special Correspondent

MUMBAI, OCT. 2. The Union Minister for Finance, Jaswant Singh, today wondered why India should not be a regional hub for all financial activities of the world.

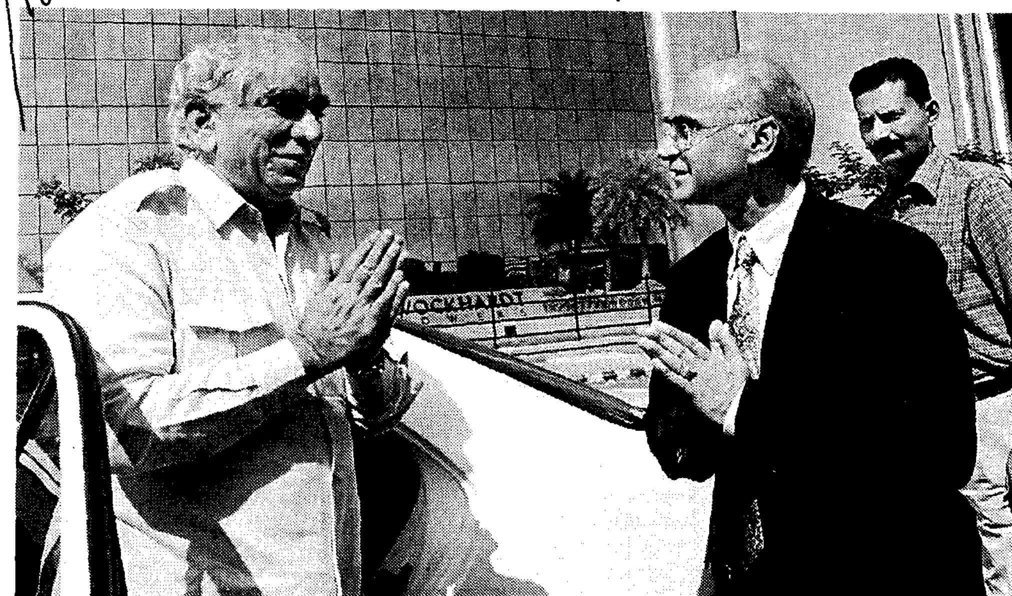
Mr. Singh expressed confidence in the ability of Indian entrepreneurs and called upon them to deal with the complexities of financial structure of the world and he assured them all the support for their endeavour. He was speaking at a function after laying the foundation for the "SEBI Bhavan" at Bandra-Kurla Complex here today.

Further Mr. Singh, quoting a proverb of Rajasthan, said the sound of hammer and chisel must always continued to be heard in country's developmental activities. "We must not be a victim of change rather we must be agents of change," he added.

While addressing the gathering, G. N. Bajpai, Chairman, Securities and Exchange Board of India, said the International Finance Corporation and the Asian Development Bank had approached the capital market regulator to issue debt instruments in India and list them on the stock exchanges. Mr. Bajpai said SEBI along with the Union Finance Ministry was working out the modalities for them to issue debt securities in India.

Mr. Bajpai hoped that more international companies would raise funds from the Indian market as Indian companies were raising funds from other international markets.

The SEBI Chairman also said the market regulator was striving to become more effective and efficient and planning to build up a central database of market intermediaries such as investors, stock brokers and depositories. It appointed National Securities Depository Ltd (NSDL) to develop this database and was expected to go live by December.



Jaswant Singh, Union Finance Minister, with G. N. Bajpai, Chairman, Securities and Exchange Board of India (SEBI). The FM was in Mumbai to lay the foundation stone of SEBI Bhavan on Thursday.

Jalan felicitated

Mr. Singh today felicitated the former Governor of the Reserve Bank of India, Bimal Jalan, here. Speaking at the function organised by the Confederation of Indian Industry, he said Dr. Jalan's counsel was always based on wisdom and experience and appreciated the efforts of Dr. Jalan as a Governor especially with regard to foreign exchange reserves. When Dr. Jalan joined as RBI Governor in the winter of 1997, India's foreign exchange reserves were around $25 billion and today it had crossed $85 billion, and rising every day.

Replaying to the felicitations, the former governor said the Indian economy was in a better position compared to last several decades.

Further narrating the role of central bank as a regulator, Dr. Jalan urged the bankers to follow the best international practices in their financial operations and banking practice.

"Best papers of international standards should be issued by our banks," said Dr. Jalan, adding "we have so many problems of corporate governance and we have to improve the delivery system."

While describing the relations between the Government and the central bank, Dr. Jalan appreciated the present convention and said the harmony and autonomy between the Government and central bank was good and doing well. But when things were bad the relationship must be built on mutual consultation and consent and work together for the progress of the country keeping in mind the short, medium and long term policies, Dr. Jalan added. "Autonomy can work only by convention and not by statute," he added.

On the central bank's exchange rate policy, Dr. Jalan said, "India is the currency model of Asia."

When Dr. Jalan joined as the Governor of RBI the rupee was being severely rency specul first month at taught the ar lesson that th seriously att

THE HINDU 3 DEC 2003

SC to reconsider HPCL verdict

TIMES NEWS NETWORK

New Delhi: The Centre's privatisation and disinvestment plans received a boost on Monday with the supreme court decision to give a fresh look at its recent judgment on prohibiting disinvestment in the two major public sector oil undertakings, Hindustan Petroleum Corporation Ltd (HPCL) and Bharat Petroleum Corporation Ltd (BPCL).

A bench of Chief Justice V.N. Khare and Justice S.B. Sinha stayed the proceedings before various high courts on petitions challenging the disinvestment of Shipping Corporation of India (SCI), Hindustan Copper Ltd (HCL), and Burns Standard Corporation Ltd (BSCL) as the Centre sought transfer of these petitions to the apex court for an authoritative pronouncement on the crucial issue involving the government's massive privatisation programme.

A bench headed by Justice S. Rajendra Babu had stopped the privatisation process of these two cash-rich and profit-earning oil PSUs, saying since they were created by acts of parliament, the government could not decide their fate by an executive order.

During the hearing of a petition challenging the disinvestment of the Kolkata rail coach manufacturing company, Jessop and Co, a bench of Chief Justice V.N. Khare and Justice S.B. Sinha said on Monday, "We are primarily concerned whether disinvestment requires parliamentary approval and whether it is legally permitted."

Earlier, attorney-general Soli J. Sorabjee had said that many decisions for privatising PSUs had been taken prior to the controversial September 16 judgment, halting the privatisation of the two oil majors. Various high courts were flooded with petitions challenging the disinvestment and privatisation programme. The petitioners had relied on the HPCL-BPCL judgment.

"The decision of the apex court was not to be applied to all the cases where disinvestment decision was taken prior to the judgment," Mr Sorabjee said. He said certain observations in that judgment required to be examined afresh as they had far reaching consequences.

Jessop Officers Association's counsel Dipankar P. Gupta said the Centre had raised several new points, and sought four weeks' time to reply to the counter-affidavit of the government. Defending the disinvestment of the sick Jessop & Co. which was pending before the Board for Industrial and Financial Reconstruction (BIFR), the government in its counter-affidavit said the apex court's judgment on HPCL was being relied upon by the petitioners to say that the sell-off of the rail coach factory to the Ruias was null and void.

The Centre said the judgment needed reconsideration as it had misinterpreted the powers conferred on the executive under Article 298 of the constitution.

THE TIMES OF INDIA 18 NOV 2003

Supreme Court to review order on oil PSUs

By J. Venkatesan

NEW DELHI, NOV. 17. The Supreme Court today agreed to have a fresh look at its recent judgment on the Hindustan Petroleum Corporation Limited and the Bharat Petroleum Corporation Limited holding that prior approval of Parliament is required for disinvestment in these public sector undertakings.

A Bench of the Chief Justice V.N. Khare and Justice S.B. Sinha observed during the hearing of a petition challenging the disinvestment of the rail coach manufacturing company, Jessop and Co., that "we are primarily concerned whether disinvestment requires parliamentary approval and whether it is legally permitted."

Earlier, the Attorney-General, Soli J. Sorabjee, contended that though many decisions for privatising PSUs had been taken prior to the September 16 judgment halting privatisation of the oil PSUs for want of prior Parliamentary approval, these had now been challenged in many High Courts relying on the HPCL judgment.

He said: "The decision of the apex court was not to be applied to all the cases where a disinvestment decision was taken prior to the judgment." Certain observations in the HPCL judgment required to be examined afresh as they had far-reaching consequences.

In its counter-affidavit, the Centre said the judgment in the HPCL/BPCL case needed reconsideration as it had misinterpreted the powers conferred on the executive under Article 298 of the Constitution. Submitting that the reliance of the Centre on its powers under Article 298 of the Constitution had not been dealt with in the said judgment, despite being raised by the Government, it said, "insofar as the judgment holds that Union of India, in exercise of its executive power, is not entitled to dispose of shares acquired by it pursuant to the Nationalisation Acts, it is submitted that the said judgment restricts the scope and ambit of Article 298."

It said the observations in the judgment put in "jeopardy" various disinvestments of companies and PSUs, but the judgment proceeded on misunderstanding and misconception of Article 113 of the Constitution as it appeared to hold that the executive could not dispose of any property purchased from funds out of the Consolidated Fund of India (pursuant to Parliamentary approval), except with Parliament's sanction.

THE HINDU 18 NOV 2003

CONTINUITY IN RBI CREDIT POLICY

No change in Bank Rate, CRR

By Oommen A. Ninan

MUMBAI, NOV. 3. In his maiden policy announcement as Governor of the Reserve Bank of India, Y. Venugopal Reddy today preferred not to cut any rate — Bank Rate, Repo Rates and Cash Reserve Ratio — allowing the central bank's continuity of the softer interest rate regime.

The implication is two fold: one, Mr. Reddy believes in continuity under which monetary measures

such as Bank Rate cut can be resorted to as and when circumstances warrant. Two, inflationary expectations, although positive, can never be ignored. So for the common man, while there is an abundance of liquidity, the significant gain has only been in areas such as housing loan and not in the aggregate. That is why the RBI feels that the credit delivery system has to be further improved to benefit the small and medium industries and agriculture.

Announcing the Mid-Term Review of the Monetary and Credit Policy for 2003-04, Mr. Reddy revised the Gross Domestic Product (GDP) growth to 6.5 to 7 per cent for 2003-04 against the six per cent projected in April last, taking into account the performance and spatial distribution of the southwest monsoon and assuming the continuance of good performance by industry and some acceleration in exports.

"Our review of the economy indicates a very positive development in the macro level and the investment climate has improved. However, the flow of credit is slightly sluggish," he said. The annual rate of inflation was likely to be in the range of 4 to 4.5 per cent with a possible downward bias compared to the 5 to 5.5 per cent envisaged during the Annual Policy announcement in April.

Mr. Reddy did not announce any change in the Bank Rate and the Cash Reserve Ratio as expected by some sections of the financial markets. The Bank Rate, an orthodox interest rate signalling device — which plays a role in the pricing of loans by banks — remains at six per cent "on a review of the macroeconomic developments", and the CRR — the amount of liquid cash that banks maintain in their vaults — stays at 4.5 per cent "in view of current liquidity situation". The Repo Rates, the benchmark for short-term rates in the economy, were left untouched. The RBI Governor indicated that the policy moves could happen outside of the monetary policy review. "No need to wait for a date to cut rates."

The flow of credit had been less than anticipated. The non-food credit increased by 5.7 per cent up to October 17, 2003, compared to an increase of 7.4 per cent in the corresponding period of the previous year. However, recent developments indicated an improvement in the flow of credit. The removal of restriction, of the prime-lending rate (PLR) being the floor rate for loans to the retail and personal segment, "should provide further impetus to retail lending."

The monetary policy's thrust would continue to be on providing adequate liquidity to meet credit growth, and to support investment demand with a vigil on the price level and with a preference for a soft and flexible interest rate environment. Mr. Reddy said a significant growth in the flow of retail credit was observed, particularly in the housing sector. However, credit delivery to some sectors, particularly small-scale industries and agriculture, had to improve.

The persistence of large aggregate borrowing by the Central and the State Governments continued to cause concern. There was need for efforts to widen the revenue base, rationalise expenditures and, above all, increase the productivity of public investment in the commercial and social sectors.

Editorial: Page 10; Reactions on Pages 11, 17

Sensex crosses 5,000 mark, bull run may continue

Gen Arun HT-1

Arun Kumar
New Delhi, November 3

THERE WAS a strong rally in the stock markets on Monday with the BSE Sensex breaching the 5,000 mark after 42 months. The 30-share Sensex gained 156.16 points to close at 5,063.03 points, up from Friday's closing of 4,906.87.

Key stocks like Bajaj Auto, Dr Reddy's Labs, GACL, Grasim Ind, HCL Tech, Infosys Tech, HLL, RIL, ITC, L&T, ICICI Bank, BSES, Hero Honda, ACC, Satyam Computer, Tata Motor, Tisco and MTNL recorded sharp gains.

Strong economic fundamentals, better-than-expected quarterly financial results and the Reserve Bank of India's decision to keep interest rates at the same level boosted market sentiments.

Another reason for the stock market boost was record net purchases in October by foreign institutional investors and operators, who also made large commitments in the futures market on the first trading day of the month. Foreign funds made a net inflow of $1.43 billion in the Indian equity markets in October, taking their total investment in 2003 to $4.5 billion, which is more than six times last year's net purchases.

Initially the market was extremely volatile expecting an interest rate cut. But the mid-term review of the credit policy paved the way for a consistent price rally by keeping interest rates at existing levels. Currently, liquidity is very strong and the rally looks set to continue for some more time, analysts observed.

In fact, further evidence of a global economic recovery also boosted market sentiments, which had already been lifted sharply by strong US growth figures last week.

The RBI's resolve to keep inflation and the fiscal deficit in check would ensure sustained growth with stability, said IFCI CMD V.P. Singh. Overall, the credit policy was expected to provide adequate stimulus for credit growth while also achieving stability objectives, he added.

More reports on Page 12

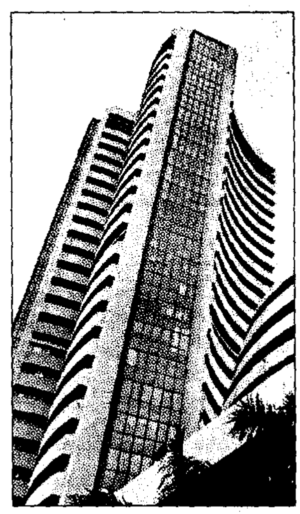
Stocks soar

4/11

On Monday, the Sensex breached the 5,000 mark for the first time since April 13, 2000.

The triggers

- Strong economic growth
- Good quarterly financial results
- Record purchases by FIIs
- RBI's decision to keep the interest rates at same level



Naik rallies MPs against divestment

'Oil sector should stay under state control'

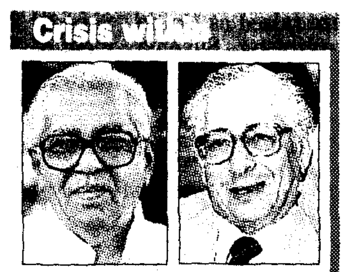
By Priya Ranjan Dash
TIMES NEWS NETWORK

New Delhi: Oil minister Ram Naik on Monday went about rallying MPs against the privatisation of public sector oil companies even as the government urged the supreme court for a review of its recent judgment that parliament's approval was needed for disinvestment in HPCL and BPCL.

Mr Naik, who had described the apex court's verdict on HPCL and BPCL as "historic", told reporters after a parliamentary consultative committee meeting that several MPs had opposed the privatisation of oil firms and asked the government not to seek a review of the ruling. They wanted the oil sector to remain under state control as it had strategic importance, he said. Mr Naik, however, refused to comment on the Centre asking the supreme court to reconsider its judgment.

"About disinvestment, the members expressed concern and wanted the supreme court verdict to be honoured," Mr Naik said. He said most of the 28 members of the committee who attended the meeting voiced serious reservations about privatisation. "They said Indian Oil Corporation should not be disinvested."

On October 3, the Cabinet Committee on Disinvestment had decided to explore the option of selling a part of IOC since the SC verdict in the HPCL and BPCL case had stalled the privatisation of the two companies. However, Mr Naik subsequently denied that the CCD had gone back on its earlier decision not to privatise ONGC, GAIL and IOC and given the nod for taking up part-privatisation of IOC. He said the MPs concurred with IOC's view that India's sole Fortune 500 firm would bleed to death if its 8,000 petrol pumps were sold off.



Ram Naik   Soli Sorabjee

Govt asks SC to review verdict in oil PSUs' case

By Rakesh Bhatnagar
TIMES NEWS NETWORK

New Delhi: The Centre on Monday urged the supreme court to review its recent judgment that parliament's approval was needed for disinvestment in oil majors HPCL and BPCL.

At the beginning of a hearing on a petition by the employees' association of the Kolkata-based sick PSU Jessop and Co Ltd challenging a high court order for its privatisation, a bench headed by Chief Justice V.N. Khare asked attorney-general Soli J. Sorabjee whether the employees' plea should be allowed in view of the HPCL-BPCL judgment delivered by another bench.

Mr Sorabjee said the judgment had "cast clouds" over the entire disinvestment process. "Some parts of the judgment require serious consideration as several aspects have not been considered," he said, adding, "Furthermore, the judgment's potential ramification and widespread consequences cast clouds on the entire disinvestment process."

The court adjourned the hearing for two weeks as the petitioner, Jessop Employees Organisation, sought time to respond to the affidavit filed by the government defending the disinvestment of the PSU.

Mr Sorabjee suggested a review of the judgment passed by a bench of Justices S. Rajendra Babu and G.P. Mathur on September 16, 2003, especially in view of the court's perception of the "constitutional angle" according to which even a company not set up under a statute but funded from the Consolidated Fund of India would require prior parliamentary approval for its sale.

In the Jessop case, BIFR had approved a government scheme to revive the sick company through disinvestment.

THE TIMES OF INDIA 14 OCT 2003

9 Econ Affairs HD-13

MPs oppose IOC disinvestment

14|10

By Our Special Correspondent

NEW DELHI, OCT. 13. Cutting across party lines, members of Parliament in the Petroleum Ministry consultative committee have opposed disinvestment of the Indian Oil Corporation (IOC) while urging the Government to honour the Supreme Court's verdict on the Hindustan Petroleum Corporation Limited (HPCL) and the Bharat Petroleum Corporation Limited (BPCL).

Briefing reporters here today after a meeting of the consultative committee, the Petroleum Minister, Ram Naik, said, "this was the consensus". He declined to comment, however, on the Government seeking a review of the earlier decision from the Supreme Court in the context of disinvestment of another nationalised company, Jessops.

Mr. Naik, a known opponent of disinvestment in the oil sector, indicated that the MPs who expressed their views during the meeting would be prepared to accept either IOC divesting equity to the public up to 20 per cent or IOC buying equity in HPCL as the strategic buyer.

He noted that members expressed their "concern" over the prospects of disinvestment of public sector oil companies such as IOC. They also felt the Supreme Court's ruling directing parliamentary approval before disinvestment of nationalised companies should be honoured by the Government.

He said members also welcomed the decision not to raise prices of LPG and kerosene which had been taken after a review of the issue and considering the "sensitive nature" of these production.

Government subsidy on these products during 2002-03 was Rs. 2.45 a litre on kerosene supplied through the public distribution system and Rs. 67.75 a cylinder on domestic LPG. Freight subsidy is also being given for supply of these of products to far-flung areas.

He said oil marketing companies in the public sector would absorb a burden of Rs. 8300 crores by not increasing prices of PDS kerosene and doemstic LPG in 2003-04. In case this decision had not been taken, he said price of a domestic LPG cylinder would have risen by about Rs. 105 and of PDS kerosene by about Rs. 3 a litre.

Mr. Naik who today became the longest lasting Petroleum Minister with an uninterrupted tenure of four years, said it has been decided to launch the ethanol blending programme in Madhya Pradesh and Uttaranchal on January 1, 2004. He also said a pilot project was being launched at Rewari in Haryana to experiment the various aspects of blending bio-diesel with diesel in Indian conditions.

14 OCT 2003

IOC offers to buy HPCL, break logjam

Divestment bosses reject idea

TIMES NEWS NETWORK AND AGENCIES

New Delhi: The Indian Oil Corporation, stung by the disinvestment ministry's proposal to carve out its retail network for privatisation, on Tuesday indicated to the government that it was ready to buy the assets of Hindustan Petroleum Corporation Limited to break the sell-off logjam.

Although nothing has been put down on paper, disinvestment ministry officials rejected the idea, saying, "It would not be privatisation." They said IOC already had a 51 per cent marketshare and putting Hindustan Petroleum under its fold would create a mammoth entry barrier for newcomers.

IOC officials said they had told the government while paying a dividend of Rs 1,533 crore to oil minister Ram Naik that the company had the financial muscle to take over Hindustan Petroleum's assets and was ready to "put up to Rs 10,000 crore on the table".

IOC chairman M.S. Ramachandran declined to comment, saying it was a "matter for the government to decide. We are the only Fortune 500 company in the country and have strong fundamentals. We can and are willing to leverage that".

His colleagues in the company said IOC had a Rs 18,000 crore surplus and a debt:equity ratio of 0.7:1. "Hindustan Petroleum could be worth about Rs 7,000-8,000 crore. This is not a tough amount for us and we can also leverage our books to raise funds," one senior official said.

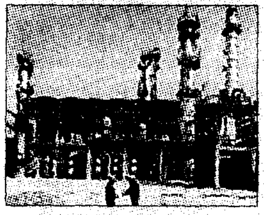
The official said the move would be supported by all political parties.

On disinvestment minister Arun Shourie's views against one PSU buying another, the official said, "Even merging IOC's refineries and other assets with Hindustan Petroleum or Bharat Petroleum is not disinvestment."

In the same vein, Mr Ramachandran said the trend the world over was for integration across the value chain. "We wish the government would support us to grow and realise better value," he said. To this end, Mr Naik wished the company well, saying the year 2003-'04 should bring better prospects for the company.

The IOC offer came as the disinvestment ministry was planning to approach the petroleum ministry in a day or two to explore the possibility of selling off IOC's marketing arm. The Cabinet Committee on Disinvestment had already given its mandate for this on October 3.

Slippery path



Financial muscle

IOC officials tell government they are ready to shell out up to Rs 10,000 crore to take over the assets of Hindustan Petroleum

Split wide open

The IOC offer comes even as the divestment ministry was planning to approach the petroleum ministry to hive off IOC's marketing arm

THE TIMES OF INDIA 8 OCT 2003

Objection M'Lords!

Oil PSU judgment deserves review

How adversely the Supreme Court (coram, Babu, Mathur, JJ) judgment on HPCL and BPCL affects the disinvestment process will depend on political parties. But that a crucial economic policy is now effectively open to manoeuvres by political parties, is unfortunate in itself. We are constrained to observe, therefore, that the judicial interpretation of nationalisation laws leaves something to be desired. The court has said that the explicit bar on sale to private parties that characterise coal and bank nationalisation laws are "implicit" in Section 7 of the ESSO (Acquisition of Undertaking in India) Act, 1974. Section 7 of the ESSO Act had allowed the then government to transfer the assets of Indian operations of oil MNCs to HPCL and BPCL, which were set up under the Companies Act. The court read this section as allowing sales of HPCL and BPCL controlling share to only government undertakings, thereby requiring parliamentary approval for overturning the provision. This interpretation of the law, with respect, appears not to take current realities into account particularly, the completely changed economic context and the desirability of letting the executive government get on with policymaking. In the absence of an explicit bar on sale to private parties and given the current policy imperatives, the judgment is difficult to justify.

The government made two important submissions. First, that the then oil minister while piloting the ESSO Act had said in Parliament in the mid seventies, that the reason behind this law was a technicality — the marketing wing of ESSO was registered as a separate company in America and an Act of Parliament was required to take it over. This adds considerable weight to the argument that the law be not read as intending to keep HPCL and BPCL perpetually in government hands. The second point the government made follows from this. Once oil MNC assets were transferred to HPCL and BPCL, these two units should be treated like any other creatures of the Companies Act. Government counsel had also cited precedents — the Western Coal Fields — where the Supreme Court had ruled that a PSU held its assets in its own right; they are not held by the company on the Union Of India's behalf. The worst among politicians will have meanwhile noted that PSUs created through parliamentary Acts include the two public airlines, MTNL and the State Trading Corporation. These are all and should be prime candidates for privatisation. But the HPCL-BPCL judgment appears now to stand in the way. As the Attorney-General has said, there is a good case for review.

THE STATESMAN

19 SEP 2003

Leash on PSU sales may hit development

Blo Afran

9-1

By Priya Ranjan Dash 18/9
TIMES NEWS NETWORK

New Delhi: There could be fewer roads, hospitals and schools—in other words, less development—this year in case the budgeted cash flow of Rs 13,000 crore into the government's coffers from the privatisation of public sector enterprises is choked in the wake of Tuesday's supreme court order.

Also, the possible stalling of privatisation could effect sentiment. The 'feel good factor' in the Indian economy, which has been evident for the last couple of months could be lost.

But that's about all that finance ministry officials were willing to concede on Wednesday, that too as a worst-case scenario. Otherwise, they insisted that the ministry, responsible for the macro-management of the economy, was not losing sleep over the impact that the apex court verdict could have on the government's privatisation programme and, consequently, on its finances and the economy as a whole.

"There may be some impact on investor sentiments," said chief economic adviser Ashok Lahiri. "It's a bit premature to say that the disinvestment proceeds will fall short of the Rs 13,000 crore target this year." He added that it was still possible for the government to realise that target.

"The government can decide to go to parliament and get its approval for the HPCL-BPCL sell-off," said additional secretary, department of economic affairs, B.P. Mishra.

But what if disinvestment indeed comes to a halt and the government is not able to raise any more than the Rs 1,100 crore (Rs 900 crore from Maruti alone) which it has mopped up so far? Officials are confident that the commitment to parliament on the deficit target this year will still be kept.

"We may have to take additional measures to meet the deficit commitment," said additional secretary (budget) D. Swarup. "However, there should be no presumption that the fiscal situation is now out of control. We are in fact doing quite well so far."

Pressed for details on the steps that could be taken to neutralise a possible shortfall in divestment proceeds, he said, "Without raising tax rates, we can enhance revenues through better tax administration and compliance. There could also be expenditure cuts." He said that last year as well the realisation from disinvestment was nowhere near the target of Rs 12,000 crore. Yet the deficit was contained within the target.

The feat was achieved last year because of soft interest rates, fewer defence purchases and lower spending on development. The soft interest rates continue, but defence purchases have gathered pace. So has the spending on the government's establishment expenditure and subsidies. Better tax administration and compliance could not be turned on and off like a tap. The obvious option, sources said, would be to cut development expenditure.

● **See Edit: Step Off the Gas, Page 12**

It's business as usual at oil PSUs

New Delhi: The day after the apex court put the brakes on disinvestment, it was business as usual at BPCL and HPCL. "It is a matter for the government. We are here to run a business and take necessary steps to do it better. We will go on doing it as the court has not asked us to stop that," a senior BPCL official said. TNN

THE TIMES CF INDIA

18 SEP 2003

Congress not to scupper selloffs

Party for case-by-case support

Vinod Sharma & Saroj Nagi
New Delhi, September 17

CONTRARY TO Disinvestment Minister Arun Shourie's fears, the Congress is unlikely to jeopardise the entire disinvestment process following the Supreme Court's verdict. What it is likely to do is use its numbers in the Rajya Sabha to inject a degree of transparency into the privatisation exercise, and try to see that its proceeds are used to create capital assets and develop infrastructure.

Former Union finance minister and CWC member Pranab Mukherjee told *Hindustan Times* on Wednesday that his party stood fast in its commitment to economic reforms. He and his party colleague, senior Supreme Court lawyer Abhishek Singhvi, made it clear that the Congress would not engage in political upmanship on disinvestment cases brought before Parliament.

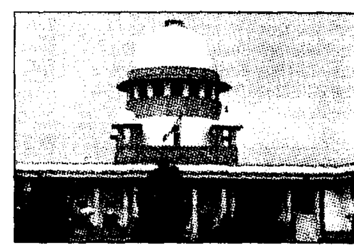
"As we are against disinvestment in the strategic and profit-making oil sector, we shall oppose any legislation to shed equity in BPCL and HPCL. But relating to non-strategic PSUs, ours would be a case-by-case approach," Singhvi said.

Mukherjee and Singhvi indicated that the Congress, as a pre-condition for its case-by-case support, would expect the NDA to agree to certain modalities for the disinvestment programme. The Opposition party has time and again attacked the NDA for selling off profit-making PSUs through a less-than-transparent process, besides using the proceeds to meet the fiscal deficit.

"We don't want the proceeds to go into the black hole of the Consolidated Fund of India. We want the funds used for infrastructure development," Singhvi said. "We are also for evaluation-based privatisation." Mukherjee said the sell-off process could be self-defeating if the real value of the national assets wasn't realised.

Related report on Page 4

The fine print



Options

- Disinvestment dept thinks govt can seek review of order. A-G Soli Sorabjee has ruled out an appeal against the verdict
- Can seek President's intervention to circumvent ruling
- Or issue Ordinance to keep divestment process rolling. Must then table Bill within 2 months of start of Parliament's winter session

Interpretation

- Future of divestment might lie in retaining at least 51% of equity in PSUs
- Court's remarks have widened scope of debate by talking of the need for a comprehensive law on privatisation

THE HIDUSTAN TIMES

18 SEP 2003

18 SEP 2003

GOING TWO WAYS

9 Bus Ad-10

So far, the courts have reacted favourably to privatization decisions, be it Bharat Aluminium Company, Jessop or Indian Tourism Development Corporation properties. The Supreme Court's decision on the appeal filed by the Centre for Public Interest Litigation and the Oil Sector Officers Association is therefore a bolt from the blue. Strictly speaking, the court has not ruled on privatization. It has just ruled on the privatization process followed for Hindustan Petroleum Corporation Limited and Bharat Petroleum Corporation Limited. Some nationalization acts, such as for banks, insurance companies and coal mines, clearly specified a minimum government equity of 51 per cent. In such instances, equity reduction through executive action was precluded, since statutes needed amendment first and this could only be done through Parliament. Air India, Indian Airlines, HPCL, BPCL and Oil and Natural Gas Commission belong to a different category, since respective nationalization acts did not specify a minimum government equity. Hence the attorney general's advice that parliamentary approval was not necessary. The court ruled otherwise.

In thus interpreting the law, the court has stayed away from expressing a view on other privatization decisions. But since other public interest litigations can follow, it is not just future privatization decisions that will be adversely affected. Past decisions like Maruti can also be questioned. The government now proposes an options paper that will be presented to the cabinet on October 3. However, an appeal option against the present two-judge order does not seem feasible. Nor can the nationalization acts be readily amended through Parliament. While the National Democratic Alliance can push through a legislative amendment in the Lok Sabha, the Rajya Sabha is a different proposition, with opposition parties rooting against privatization. This therefore pushes back privatization to after the general elections. The process may also become open-ended, since regardless of the outcome of elections, opportunistic opposition characterizes parties not in government. The external world, including institutional investors, will see this as lack of consensus on reforms and the capital markets will be affected, quite apart from disinvestment targets going for a six.

Two points emerge. First, the necessity of a common minimum economic agenda that will not be opposed is underscored, since coalition governments seem inevitable. Second, the constitutional underpinnings of liberalization also need consideration. Despite a Supreme Court ruling that the basic structure of the Constitution cannot be altered, India no longer possesses the 1950 Constitution. Instead, the Constitution has become more socialist in content and court judgments capture this spirit. Hence, several reform decisions can be challenged as unconstitutional. The constitutional review commission left this issue unaddressed. The objection is not to a judicial review of executive decisions. But democratically feasible solutions have to be found for the problem.

THE TELEGRAPH

19 SEP 2003

18 SEP 2003

SC reserves order on oil PSU disinvestment

Our Legal Correspondent

NEW DELHI, Sept. 5. — The Supreme Court (coram, Babu, Mathur, JJ) today reserved its verdict on three petitions challenging the disinvestment of oil PSUs, HPCL and BPCL, on the ground that no parliamentary approval has been sought for off-loading government shares in them.

The court gave the order after hearing arguments from both sides. The government was represented by the senior counsel, Mr Harish Salve, whereas the Oil Sector Officers' Association and the Centre for Public Interest Litigation were represented by Mr Fali S Nariman and Mr Shanti Bhushan respectively.

Appearing for the Oil Officers' Association, Mr Nariman clarified that he was not contesting the fact that the Centre could if it wanted to, disinvest its share in any public sector unit, but was only objecting to the manner in which the process was being carried out.

Quoting the parliamentary enactments under which the two oil PSUs were taken over, Mr Nariman said that these laws specifically state that it is expedient in public interest that the undertakings be acquired to ensure that the ownership and control is vested in the state so as to subserve common good.

Since they were taken over by parliamentary legislation, these could not be handed over to the private sector without bringing in another law repealing the earlier laws, he argued.

Without a parliamentary law, any such transfer would be unconstitutional, he said. It would also be violative of the Directive Principles of State Policy (DPSP) laid out in the Constitution.

He cited the example of Maruti Udyog Limited which was divested by a parliamentary enactment in this context. Balco in contrast, he said, did not have a statutory backing and hence could be divested by an executive decision.

Mr Shanti Bhushan also argued that under the existing constitutional and statutory scheme of things these two oil majors could not be disinvested without bringing in a law changing the existing policy.

A private company would only be interested in profits and would not concern itself with public good, hence an amendment would have to be made to transfer ownership or management to the private sector to the exclusion of the public sector, he argued.

Appearing for the Government of India, Mr Salve said that under the existing constitutional scheme of things, it matters little how you become a PSU. The constitutional obligations under the DPSP bind all PSUs all the time as they are considered as instrumentalities of the state.

There are two kinds of laws under the current statutory scheme, he said. One that bars the government from reducing its stake and another doesn't. Laws related to banking and coal-mine prohibit this.

But not other laws. All PSUs are companies under the Companies Act, he said. So HPCL and BPCL can dispose of their shares as can the government, he said.

Moreover, the economic situation has changed drastically since the days of nationalisation. Whether a particular decision subserves common good is a matter of policy.

If government feels that changed realities require that it offload shares for public good, it could do so, he said. "As long as the process is bona fide," he added.

THE STATESMAN

6 SEP 2003

ILL-PREPARED FOR VAT

THE WAGES OF an inadequate preparation for the introduction of a State value-added tax (VAT) are being paid on the eve of the April 1 deadline for the switchover. A number of lobbies and pressure groups have been pressing for either a postponement or a modification of the proposed VAT regime. While some of these pressures are clearly the work of interests which expect the scope for tax evasion to be considerably reduced in a VAT system, there are many genuine concerns that cannot be wished away. With less than a week to go before the scheduled shift from sales tax to VAT in all the States, the Central and State Governments have a tough choice to make between going ahead and postponing the changeover. Considering the poor state of preparedness among a number of State Governments and the concerns of traders and consumers, there is on balance a case for postponement even at this late stage.

The shift to a VAT regime at the State level has been under discussion for almost a decade and an Empowered Committee, which was chaired by a Chief Minister, took the final decision on a "consensual" basis. So it cannot be said that the decision was either rushed through or forced on the States. But that does not mean that the administration and the traders/retailers are prepared for what will be a fundamental change in the system of retail taxation. The superiority of VAT stems from the fact that it prevents the cascading impact of taxation, it is transparent and reduces the scope for evasion. Superior VAT may be, but it also demands a superior form of administration and rigorous compliance by those who collect the tax. This is where the many years of so-called preparation have failed to make either the State Governments or the retailers comfortable with the shift. In a number of States, the sales tax administration simply has no clue as to what is to come. So too the retailers who have not been made familiar with the considerable documentation that accompanies the levy of VAT. The fault here is entirely that of the State Governments, most of whom have been casual about preparing for the new tax regime. Still, sticking to the April 1 deadline raises the possibility of a breakdown in tax administration in a number of States with a consequent loss of revenue and retail business being paralysed. While there have been three postponements since the first switchover scheduled for April 1, 2000, it is better to be thoroughly prepared than to rush through to what is on paper a better form of retail taxation. At the same time, there are vested interests that are using the lack of preparation to stall the move to a retail VAT. The trading community in Delhi — the original natural support base of the Bharatiya Janata Party — is out to scuttle the dismantling of the sales tax regime on the ground that Delhi will lose its "distributive" (trading) character. This is just a subterfuge to block the introduction of a system that should largely plug the widespread evasion of sales tax.

There are also some fundamental problems with the proposed VAT regime. The flat all-India rate of a 12.5 per cent VAT is not the best way to prevent inter-State tax competition. A floor rate is a better option, not the least because it leaves powers with the States to choose the tax rate best suited to their needs. The imposition of a uniform 12.5 per cent on most commodities will also result in prices of some essential commodities going up; the price of medicines is one example, which has already seen the pharmaceutical trade cause disruption with a one-day strike. Fiscal experts have also raised other basic questions like the need for a graded shift to a destination-based VAT that would be accompanied by a gradual elimination of the Central Sales Tax. Convincing arguments have been made against "zero-rating" of inter-State transactions (i.e., no tax on goods when they cross State borders) on the ground that the level of monitoring and computerisation required to contain evasion in this system is beyond the Indian tax system.

THE HINDU

THURSDAY, MARCH 13, 2003

ROLLBACK TIME

BY BOWING TO pressures to abandon the budget proposal for a very modest increase in fertilizer prices, the Union Finance Minister, Jaswant Singh, has had to go the way of others before him who dared to tinker with the fertilizer subsidy. Manmohan Singh was forced to moderate a hike in fertilizer prices proposed in 1991 and Yashwant Sinha had to roll back the price hike he proposed in 2000. In these instances, pressure has come from across the political class, including from within the ruling dispensation, to not take a decision that it is said will seriously hurt the farmers of India. Whether it is procurement prices, power tariffs for irrigation, taxation of agriculture at high incomes or fertilizer prices, agriculture is always a holy cow that cannot be touched. Unfortunately, the political classes do not realise that by taking such a position more damage is being caused to the long-term interests of the farming community.

It is debatable if it was correct politics for Mr. Jaswant Singh to propose a hike in the prices of all fertilizers so soon after the drought of 2002 caused widespread problems for Indian agriculture. But, going by past experience, the political reactions would have been no different even in a normal year. The fertilizer subsidy now stands at Rs. 12,000 crores and it benefits more the manufacturers than the users. The budget proposal of a Rs. 12 increase in the price of a 50 kg bag of urea and a smaller increase in the price of two other fertilizers was no more than a 5 per cent rise in prices. Besides, the average all-India use of fertilizers is only 90 kg a hectare, which would mean a rise in per hectare costs of less than Rs. 25. Even in Punjab, where the fertilizer use at 175 kg a hectare is the highest in the country, the rise in costs would have been less than Rs. 50 a hectare. This would have been a very small price to pay to start on the road to promoting better fertilizer use on the farms and improving efficiency in the manufacture of this important input for agriculture. Of course, the price hike that has been rolled back would have made only a minor dent in the subsidy problem. The current urea price of Rs. 4,830 a tonne carries a subsidy of as much as 80 per cent. This subsidy is the product of a complex pricing system that has evolved over the years. The cost-plus pricing system for manufacturers has kept prices at a higher level than they should be and the subsidy has encouraged inefficient use on the farms that has, in many regions, even caused deterioration in soil quality. Unless the problem is attacked at both the farm and factory ends, the fertilizer problem will become increasingly difficult to solve. The Government has announced a group pricing system for fertilizer manufacturers that will come into force next month. This will address some of the excesses in the system but a modest and gradual price revision is necessary for an eventual overhaul of the hydra-headed monster that has been created over the years. This is something the political class is unwilling to even think of, especially on the eve of national elections.

The position of Mr. Jaswant Singh on the fertilizer issue can be sympathised with, but there can be no sympathy for his position on the budget under-funding expenditure. Although it is now abundantly clear that the budget has not provided sufficient funds for a number of programmes, thereby underestimating the revenue and fiscal deficits in 2003-04, the Finance Minister insisted in his reply to the debate in Parliament that the budget numbers are accurate. The true picture will emerge during the course of the next fiscal year.

THE HINDU

SURVEY FOR PRUNING SUBSIDIES

Economic growth scaled down to 4.4 p.c.

By Our Special Correspondent

NEW DELHI, FEB. 27. The pre-budget economic survey released by the Union Finance Ministry today implicitly backed the Kelkar Committee recommendations on direct and indirect taxes by calling for large-scale rationalisation and simplification of the taxation structure and reiterated the need to prune subsidies so that more resources are available for infrastructure development. This would be necessary for creating the environment for sustainable high growth in the economy, the survey said.

Presenting a dual picture of the economy, the 2002-03 Economic Survey presented to Parliament by the Finance Minister, Jaswant Singh, points to the high foreign exchange reserves, the low level of inflation and the absence of shortages or scarcity of essential commodities. At the same time, the agriculture output has fallen, resulting in an expected low economic growth of 4.4 per cent while unemployment has been rising and the fiscal situation of the Centre and the States has deteriorated.

The Survey states that the 3.1 per cent decline in agriculture and allied services "clouds an across-the-board improvement in the growth performance of industry and services".

The industrial sector, for instance, is expected to grow by 6.1 per cent, almost double the 3.3 per cent growth registered in the previous fiscal while services will be up from 6.8 to 7.1 per cent. This growth recovery in industry and services has been juxtaposed against the several downside risks prevailing in the international and domestic economy since the outlook of recovery in global economic activity and world trade has remained subdued and international financial flows have been affected by the unsettled conditions in Latin America and Turkey.

Besides, geo-political conditions have been highly volatile with the stand-off in Iraq. On the domestic front, the country has been affected by a most telling drought, the survey says.

Credit has also been claimed for the continued macro-economic stability in terms of low inflation (3 per cent level), orderly currency market conditions and comfortable foreign exchange reserves ($ 74 billion, up $ 20 billion in 10 months). The large foodstocks helped stave off the pressure on prices because of drought while there had been no flare-up in prices of other essential commodities.

On the oil front, the transition to a market-based pricing mechanism for petroleum products from a Government-determined pricing system has also happened without disruptions though the fuel group inflation remained below five per cent for most part of the year. The latest Iraq-related uncertainty has caused fuel inflation to touch 6.4 per cent in mid-January this year. However, the Government has said it will be in a position to take care of any increase in oil prices in case of a flare-up. The other positives have been the striking recoveries in steel and cement industries, mostly because of the massive road constructions and the fillip to housing, 68 per cent rise in automobile exports, increase in software and hardware sectors, a 17 per cent growth in telecom, 24 million tonnes of additional petroleum refining capacity along with fresh oil and gas finds, and the record current account surplus on the balance of payments front.

On the agricultural front, the survey notes that foodgrain production in 2002-03 is estimated to fall by 13.6 per cent, brought about by the drought which will bring down 'kharif' production by 19.09 per cent and 'rabi' by 7.5 per cent. On the employment front, the rate of growth of employment on current daily status basis declined from 2.7 per cent per annum in 1983-94 to 1.07 per cent per annum in 1994-2000, the liberalisation years of the Indian economy.

Furthermore, the decline in the rate of growth of employment during the 1990s was associated with a comparatively higher growth rate in the GDP, indicating a decline in labour intensity of production. Indicating the lack of investment proposals in the Indian economy, the survey revealed that sanctions and disbursements by the financial institutions — which finance large industrial projects — were down by 51.4 per cent and 47.4 per cent, respectively, in the first nine months of the current fiscal.

The survey attributed this declining trend to the reduction in the number of project proposals seeking financial assistance, the weak financial position of the lead institutions such as the IDBI and the IFCI and the financial restructuring of asset portfolios of the financial institutions.

On the deteriorating fiscal situation of the Centre and the States, the survey found the consolidated deficit to be at 10 per cent of the GDP, with the deterioration in State finance being more pronounced.

Details on Page 16

THE HINDU 28 FEB 2003

NEGLECT OF ISSUES

THE ECONOMIC SURVEY of 2002-03 has been prepared at a time when annual growth of the gross domestic product (GDP) has slumped to 4.4 per cent and a U.S.-led war, which will have a negative impact on the Indian economy, looks increasingly likely to take place in West Asia. Unfortunately, the annual survey of the economy has paid scant attention to these two sets of issues. It has preferred instead to highlight the longstanding issues of infrastructure, regulatory and tax reform, and fiscal consolidation.

The report card on the economy, which is prepared by the Finance Ministry but is rarely a pointer to the contents of the Union budget for the next year, sees the deceleration in GDP growth during 2002-03 as entirely an outcome of the drought-induced slump in agriculture. The effect of the drought cannot be denied, but the question is why industry, about which a revival has now been spoken of for more than a year, has not been able to show a growth of more than 6 per cent. Since agriculture now accounts for no more than a third of GDP, a drought can no longer be blamed solely for a slowdown in growth. The Economic Survey separately observes that while industry does show a revival, new private investment in industry has not been forthcoming and without fresh capital expenditure there cannot be growth on a sustained basis. Yet, the possible policy implications of this phenomenon do not concern the Survey and that is true as well of the impact of a possible war on Iraq. The huge foreign exchange reserves the country now has are more than sufficient to cope with a spike in global oil prices. But anything more than a short conflict will pull down the demand for Indian exports and possibly effect the flow of remittances as well. If the economy is looking for an assurance that the Government is seized of the impact of this imminent crisis, then that will not be found in the Economic Survey of 2002-03. Credit must, however, be given to the report for raising three important issues, all relating to agriculture. The first is a proposal to rethink the present system of food procurement so that annual purchases of cereals are brought down to the old levels of 24-30 million tonnes. The second is the need to encourage a diversification of agriculture, which would need a considerable expansion of infrastructure, including investment in transport facilities and cold storages. The third issue that has been highlighted is the failure of India's vast irrigation potential (the largest in the world) to minimise the impact of the 2002 drought and the need therefore to rethink current-day approaches to irrigation, which underlie many local and inter-State disputes over water resources.

The larger agenda that the Finance Ministry report has proposed is one that has been discussed a number of times in recent years. For one, the need to reduce the burden of subsidies and, Government salaries and pensions is not a new issue. Nor for that matter are the issues of pricing of infrastructure services and regulation. What has been missing in all these areas is an inability, perhaps even an unwillingness, to take difficult decisions. A new proposal, one that will have serious implications for the States, is the proposal to rethink the "whole issue" of federal transfers. What the Centre may have in mind the Survey has not cared to elaborate on, but the Finance Ministry suggested last year and has repeated in the Economic Survey the need to cut back on budgetary support for the Plan and even total Plan expenditure because these have an adverse impact on the fiscal deficit and internal debt. Since the Planning Commission and the Finance Ministry have been engaged in a well-publicised tussle on this matter, the Union budget for 2003-04 may well see specific proposals in this regard. The entire system of Plan funding and expenditure certainly is riddled with fundamental problems, but any hasty overhaul resulting in a major cut-back is more than likely to jeopardise the short-term prospects for economic growth.

GAINS FROM DISINVESTMENT

THE CABINET COMMITTEE on Disinvestment's approval of the disinvestment of Government stake in the two oil companies, HPCL and BPCL, is a step forward. It brings to an end almost 12 months of intense wrangling, first within the ruling NDA coalition and later on with the Opposition groups. With the solitary exception of Balco, which was eventually sold to a strategic partner, no other item on the disinvestment agenda has had such strong political undercurrents as the two oil companies' sale. It is noteworthy that while most of the contentious issues were made out to be economic rather than political ones, it was common knowledge that only a political resolution would end this phase of the controversy. For instance, the choice of the appropriate method for divesting the Government's stake in the two oil companies became the dominant point of contention, second only to the decision to bring down the Government's stake in the first place. The Disinvestment Ministry and the Petroleum Ministry have had radical differences over the extent of control and stake the Government should keep post-divestment. The former favoured the strategic sale route and the latter the more gradual public offer route. There are merits in both the approaches but the debate this time was hardly on strict economic principles. Given that the Government stands to lose management control in the strategic sale route, it has been easy to see where the opposition to it came from. Adding to the controversy and the consequent delay was the argument that the country's oil security could be compromised if the two public sector oil companies were sold to private, including foreign strategic, buyers.

In retrospect, it is not just one item on the disinvestment programme — relating to HPCL and BPCL alone — that became a victim of the politically motivated bickering. To a large extent, the entire process received a rude jolt just as it was getting into stride. The Balco sale was vindicated by the Supreme Court judgment, which upheld the sanctity of economic decision-making. From then on, it was hoped that strict economic considerations alone would determine the pace and scope of the public sector sale programme. Indeed, impressive gains were recorded in quick time. The vexatious IPCL imbroglio was settled with Reliance taking control through a bidding process. The Tatas became the strategic partners in CMC and VSNL and Himachal Futuristic in HTL. A number of Government-owned hotels were privatised at one go. Considering that the vast majority of these went through without any significant acrimony, it was felt that the disinvestment programme was finally winning the much-needed consensus and not just in an economic sense.

The controversy over the oil companies has therefore had a negative connotation that has extended to the entire economic reform process. That also meant that previously settled points for opposing the programme came back into reckoning. For example, there has been a debate as to whether other Government-owned companies in the oil sector; IOC and ONGC, should be allowed to bid. That is really a debate over the future role of the public sector but in the instant case became a reason for delaying the decision-making. At an even larger level, the impasse had given a handle to State-level political leaders to rally against other proposals to disinvest. The opposition in Orissa to Nalco's strategic sale has been well recorded and would been have emulated in many other States if there was further delay. Hence, even if the latest decision is a compromise it has plenty of merits.

The programme is back on track although there could be other controversies while it moves into the nitty-gritty of disinvestment. The urgent task now is to ensure that divesting the Government stake is completed in a transparent manner within a reasonable time frame. Clearly, there is a need to maximise the value to the Government and the other shareholders. The appropriateness of the two methods would again be tested. Hopefully, the important lessons learnt can be very relevant to the future success of all economic reform, especially its more contentious aspects. There has been a realisation (once again) that the public sector sale process is above all political and that a compromise is better than no progress at all.

THE HINDU

28 JAN 2003

ONGC NOT ALLOWED TO BID

Govt. clears HPCL, BPCL disinvestment

By Sushma Ramachandran

NEW DELHI, JAN. 26. The long-pending controversy over disinvesting oil sector companies finally ended today with a decision to carry out a strategic sale of the Hindustan Petroleum Corporation Limited (HPCL) while reducing Government equity in the Bharat Petroleum Corporation Limited (BPCL) through public offers. The uncertainty over the fate of the ongoing Bhatinda refinery project of HPCL in Punjab has also been resolved with a decision to go ahead with the refinery irrespective of whether or not the strategic partner is interested in it.

Disclosing this here after a meeting of the Cabinet Committee on Disinvestment (CCD) convened as a special case on Republic Day, the Disinvestment Minister, Arun Shourie, stressed that the Government would definitely implement the project. In case the strategic partner was not interested, other options would be considered including involving public sector companies such as the Oil and Natural Gas Corporation (ONGC) or the Indian Oil Corporation (IOC).

Briefing mediapersons on the meeting which had a single point agenda about the modalities of disinvestment in HPCL and BPCL, he said Government equity would be brought down to 12 per cent in HPCL and 26 per cent in BPCL. The Government shareholding would be divested to the extent of 34.01 per cent in HPCL and 35.2 per cent in BPCL with five per cent being offered to employees in both companies. The strategic sale of HPCL would also entail transfer of management to the strategic partner.

In the case of BPCL, the disinvestment would be through public offers in both the overseas and domestic markets. He pointed out that the future of the Bina refinery project was no longer in doubt since BPCL would implement the project. As for the Rs. 9000 crore Bhatinda refinery project where an investment of Rs. 400 crores had been made, he sought to allay concerns expressed especially by the Punjab Government by reiterating that it would definitely be set up.

The other major decision taken by the CCD was that public sector companies would not be allowed to bid for HPCL. This was bound to dash the hopes of the ONGC which was keen on bidding for HPCL to help it make a smooth transition towards becoming an integrated oil major.

Regarding the timeframe for implementing the strategic sale, he said "as soon as possible". The CCD meeting which was convened on Republic Day due to difficulty in finding a date convenient for all members was held in the absence of the Finance Minister, Jaswant Singh, who is in Davos. But the Finance Ministry had given written views on these issues to the CCD which have been taken into account, he said.

Mr. Shourie said the opinion of the Attorney-General on the need for parliamentary approval of HPCL's and BPCL's disinvestment was circulated at the CCD meeting. Giving details of the Attorney-General's opinion, he said it was stated that there was no need for parliamentary approval since the two companies were incorporated under the Companies Act after being nationalised.

So all activities were carried out in accordance with the provisions of the Act. The Attorney-General had also pointed out in some cases such as in coal and bank nationalisation, the relevant legislation had provided for parliamentary approval in case of privatisation.

But this was not so in the acquisition legislation for HPCL and BPCL where the provisions are on the lines of legislation nationalising the Maruti Udyog Limited (MUL).

THE HINDU

27 JAN 2003

Legislation not needed for PSUs disinvestment: Sorabjee

By Alok Mukherjee

NEW DELHI, JAN. 21. With the go-ahead given by the Attorney-General, Soli Sorabjee, that neither parliamentary legislation nor its sanction or approval was necessary to give effect to the decision to disinvest two public sector oil companies, a final decision on the issue is likely to be taken by the Cabinet Committee on Disinvestment (CCD) later this month.

The Disinvestment Minister, Arun Shourie, today handed over to the Prime Minister, Atal Behari Vajpayee, the legal opinion of the Attorney-General relating to the disinvestment of the PSUs, the Hindustan Petro Chemicals Limited (HPCL) and the Bharat Petro-Chemical Limited (BPCL). While the matter did not figure at the Union Cabinet meeting today, Mr. Shourie indicated that the CCD might take it up later this month, after the return of the Deputy Prime Minister, L.K. Advani, from his foreign tour on January 25. In his communication to the Government, the A-G is understood to have reiterated that his opinion was confined to the sole question of whether there was any necessity for parliamentary legislation or approval for the in-principle decision of disinvestment of the two oil companies and not about the legal merits of the form and content of the actual ultimate decision of disinvestment.

The A-G is understood to have expressed the view that after examining the memorandum of association and the articles of association of both the companies, he was of the opinion that the documents did not impose any requirement of parliamentary legislation or securing its approval for the sale of shares of the companies. There is also no provision in the Companies Act which states that decisions or actions of Government companies — whether it be a voluntary winding up or merger or amalgamation or disinvestment by sale of shares resulting in change of management — require parliamentary legislation or sanction.

After scrutinising the Acts, which resulted in the nationalisation of the erstwhile Esso, Caltex and Burmah Shell — the first two became HPCL and the last, BPCL — Mr. Sorabjee is understood to have opined that there were no specific provisions which prohibited the carrying on of business of production, refining and distribution of petroleum products by any private entity. Therefore, there was no implied prohibition in the Acts which resulted in the acquisition of these companies which inhibit disinvestments.

On Section 620 (2) of the Companies Act — which prescribes that every notification proposed to be issued under sub-section (1) of Section 620 should be laid before each House of Parliament and also contemplates Parliamentary approval in specified matters — the A-G is understood to have said that unlike in the State Bank of India Act or the Reserve Bank of India Act or the Banking Companies (Acquisition and Transfer) Act, the legislation resulting in nationalisation of the two oil companies did not have such provisions.

'AWARENESS OF REGULATORY SAFEGUARDS IMPORTANT'

PM calls for steps to protect small investor

By Our Special Correspondent

NEW DELHI, JAN. 17. The Prime Minister, Atal Behari Vajpayee, today exhorted the small investor to return to the stock market. At the same time, he called upon market regulators and intermediaries to make the capital market in India the safest place in the world to invest.

Launching the Securities Market Awareness Campaign organised by the Securities and Exchange Board of India (SEBI) at a function here, Mr. Vajpayee said the prolonged quiet in the stock markets had tested the confidence of the small investor who was the backbone of the securities market. "If investors are not attracted, then companies will not be able to raise money through the capital market. The Indian household investor, of late, has been putting much of his savings in non-financial assets. Even with financial assets, most of the savings are going to the banking system. This is not the best or the most productive use of our savings," he said.

Putting his finger on the nub of the problem, the Prime Minister said that in recent years, there had been many instances of companies raising money from the market by creating a hype and then defrauding the investor. "Many of them issued shares at hefty premiums; most of their scrips are now trading well below their face value. Stock market scams brought a bad name to the Indian business community. This is how boom became bust and hopes turned to dust for many gullible investors. And that is how the investor community lost confidence in the market, leading to prolonged stagnation."

The Prime Minister, A.B. Vajpayee, inaugurates the securities market awareness campaign in New Delhi on Friday. The Finance Minister, Jaswant Singh, and the SEBI chairman, G.N. Bajpai, look on. — Photo: V. Sudershan

Against this background, the Prime Minister called upon the market regulator and the intermediaries to "learn the right lessons from our experience of the past few years. We need markets that are known for their safety and integrity". To build investor confidence, it was necessary to make people aware of the different options available in the market and also about the regulatory safeguards put in place to protect their legitimate interests, including ensuring SEBI's independence and professionalism.

Mr. Vajpayee said that while technology and the regulatory framework of capital markets had improved, the standards of corporate governance had not kept pace. "Of course we have many companies that have become role models of good corporate governance... but there are many more companies that often use questionable and even illegal means to achieve their ends".

The Prime Minister rounded off by saying that a high rate of domestic savings, channelled into productive investments, was important to achieve the eight per cent economic growth set in the Tenth Five Year Plan. "Indian industry needs large capital to attain this growth rate. For that, we need to encourage present savers to save more and also to bring in new savers."

Mr. Vajpayee also drew attention to another important aspect. Pointing to the diversity of the country with different languages, he said most Indians did not know English but had investible savings. "Many of our rural areas have become thriving centres of prosperity. Therefore, you need to introduce this financial literacy campaign in all regional languages and in Hindi," he told the organisers of the function.

The Union Finance Minister, Jaswant Singh, said the strengthening of the SEBI and enhancing penalties for irregularities would deter evaders and improve the confidence of investors in the capital market.

"The SEBI Act has been amended to further strengthen the regulator. It is our expectation that a strong regulator and enhancing the penalty limits would deter evaders and bolster the confidence of investors," he said.

THE HINDU

LIMIT FOR MUTUAL FUNDS DOUBLED TO $1 BILLION

Govt. eases norms for investments abroad

By Alok Mukherjee

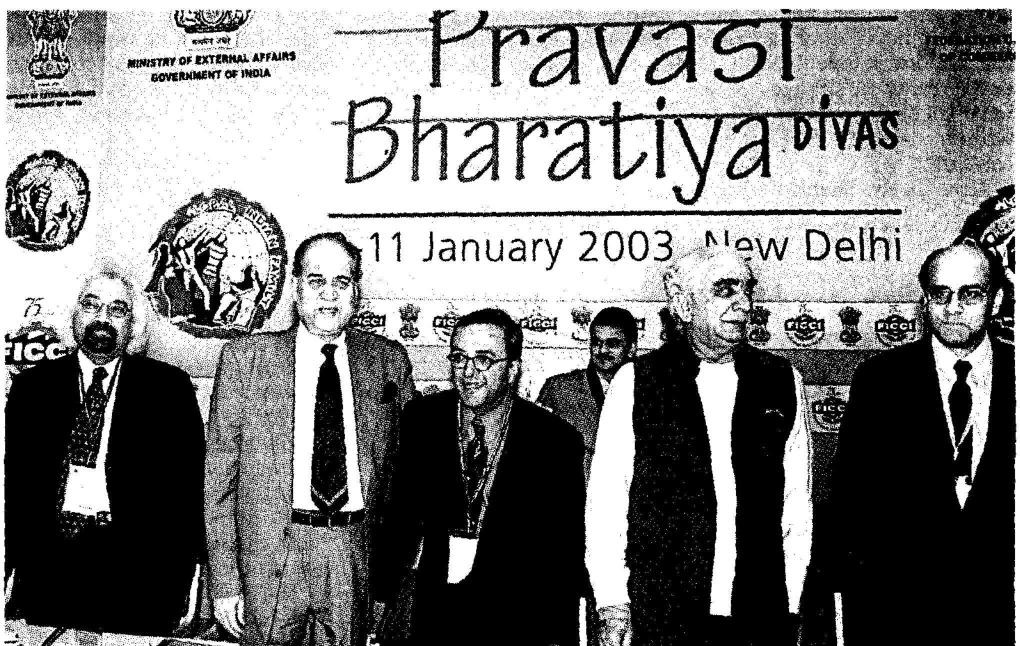
NEW DELHI, JAN. 10. With over $70 billion foreign exchange reserves in its vaults, the Government today announced major measures which mark a forward movement towards capital account convertibility. Henceforth, Indian individuals will be permitted to invest in companies abroad while for mutual funds, the investment limit has been doubled to $1 billion. Indian corporates too will be permitted to invest in companies abroad while those having branches and offices overseas have been permitted to acquire immovable property.

The announcements relating to liberalised foreign exchange transactions were made by the Union Finance Minister, Jaswant Singh, at the on-going Pravasi Bharatiya Divas celebrations here.

As per the latest decisions, the overall limit has been increased to $1 billion for mutual funds to invest abroad in companies which are listed on overseas stock exchanges and which have at least 10 per cent shareholding in a company listed on a recognised stock exchange in India on January 1 of the year of investment. The earlier cap for investment abroad by mutual funds was $500 million.

Individuals too are being permitted to invest abroad in companies which are similarly listed on overseas stock exchanges and which have at least 10 per cent shareholding in a company listed on a recognised stock exchange in India on January 1 of the year of investment. But no investment limits have been fixed for individuals as yet and may be announced later.

Permission has also been granted to listed Indian companies to invest abroad in companies listed on recognised overseas stock exchanges and having at least 10 per cent shareholding in a company listed on a recognised stock exchange in India on January 1 of the year of investment. However, such investment should not exceed 25 per cent of the Indian company's net worth as on the date of the last audited balance sheet.



The Union Finance Minister, Jaswant Singh, with (from left) the Chairman, Worldtel, Sam Pitroda, the CMD, Bajaj Auto, Rahul Bajaj, the Senior Vice-President, FICCI, Y.K. Modi, and the Singapore Minister of State for Trade and Industry and Education, Tharman Shanmugaratnam, at the plenary session on the 'Global Business Matrix and the Indian Diaspora' in New Delhi on Friday.

General permission has been granted to Indian companies to retain abroad their mobilisations through American Depository Receipts (ADRs) of the Global Depository Receipts (GDRs) without limits for future forex requirements. The present cap in this respect is $10,000. Simultaneously, permission has been granted to corporates who have set up their branches and offices abroad to acquire immovable property overseas for their business and staff residential purposes. Mr. Singh also announced removal of the existing limit of $20,000 for remittance under the Employees Stock Option Programme (ESOP) scheme. This will facilitate the Indian employees of foreign companies to procure higher equity stakes offered under the ESOP scheme.

The Minister announced the discontinuation of limits on trade-related loans and advances by Export Earners Foreign Currency (EEFC) account holders, though the transactions will continue to be reportable to the Reserve Bank. Also, with regard to transfer of assets in India, remittance of proceeds up to $1 million will be permitted.

Mr. Singh said the process of making India an attractive destination for foreign direct investment (FDI) would continue.

A high-level committee was to be set up to strengthen the regulatory and penal provisions for the corporate sector to promote best corporate governance practices by liberalising corporate laws for greater business freedom and reducing compliance costs, the Minister announced.

11 JAN 2003

India, Japan close partners, says Kawaguchi

By Amit Baruah

NEW DELHI, JAN.7. The Japanese Foreign Minister, Yoriko Kawaguchi, said today that India and Japan were "close partners" and the objective of her visit was to strengthen the bilateral relationship.

Ms. Kawaguchi, who arrived here from Sri Lanka, held delegation-level talks with her Indian counterpart, Yashwant Sinha, at South Block. "India and Japan are close partners and I am here to strengthen our relationship from the strategic point of view," she told this correspondent before going into talks with Mr. Sinha.

Briefing presspersons on the meeting between the two Ministers, the Foreign Office spokesman said there was "good understanding" between India and Japan on the issue of international terrorism. The Japanese Foreign Minister is said to have stressed the need for increased cooperation in the battle against the menace.

Ms. Kawaguchi told Mr. Sinha during the talks (there was no one-on-one meeting) that Tokyo had been telling Islamabad to stop infiltration across the Line of Control. She is reported to have expressed concern at newspaper reports on the nuclear and missile nexus between North Korea and Pakistan. Japan, she said, stood against both nuclear and missile proliferation. If these reports on the North Korea-Pakistan linkage was correct, then it was bound to have an impact on Japan's bilateral relations with Pakistan.

For his part, Mr. Sinha raised the issue of "catch-all" export controls imposed by Japan and said these generated negative views in the business community. Ms. Kawaguchi said she would convey Indian concerns to Ministers dealing with the economy.

Mr. Sinha also made the point that cross-border terrorism sponsored by Pakistan was continuing. India, he said, was in favour of a dialogue with Pakistan but continuing Pakistani support to terrorism was not creating a conducive atmosphere for a dialogue.

Earlier, talking to presspersons at the Delhi Metro site, Ms. Kawaguchi avoided a direct answer to a question about the missiles-for-nuclear knowhow deal between North Korea and Pakistan. She, however, pointed to the fact that it was Japan alone which had been the victim of two nuclear bombs. Japan was against any kind of nuclear proliferation and remained concerned about this problem.

Her visit to India is important in the sense that Indian policymakers have been deeply critical about Japan in the post-May 1998 scenario.

Unlike the United States and even key European nations, India and Japan have not been able to hit a high note in their relations.

The External Affairs Minister, Yashwant Sinha, with his Japanese counterpart, Yoriko Kawaguchi, at a meeting in New Delhi on Tuesday. — Photo: Shanker Chakravarty

THE HINDU

THE HINDUSTAN TIMES

28 AUG 2003

GDP to beat 6% forecast: RBI

HT-12 28/8

Annual report calls for faster reforms, higher savings to fund

HT Correspondent
New Delhi, August 27

BUOYED BY strong agricultural recovery and healthy performance by industrial and service sectors, the GDP growth for 2003-04 may exceed the earlier projection of 6 per cent, according to the Reserve Bank annual report released here on Wednesday.

In the credit policy announced in April 2003, the RBI had projected a GDP growth of about 6 per cent for 2003-04.

The apex bank said a final assessment on the GDP would be made in October credit policy since reliable information on the progress of the monsoon and the industrial upturn will be available by that time.

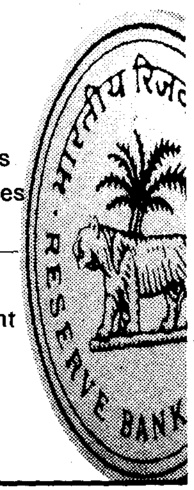
The balance sheet

ACHIEVEMENTS

- Low inflation
- Revival of industrial activity
- Rise in merchandise exports
- Pick up in infrastructure investments
- Burgeoning foreign exchange reserves
- Falling interest rate

ROADBLOCKS

- Fall in food production due to drought
- Oil price hike spurred by Iraq war
- Slowdown in global economies
- Border tension
- Higher fiscal deficit of 5.9%



The main challenge that requires constant vigil in the macroeconomic sphere is the reduction of fiscal deficit of the central and state governments, the report says. "Much greater attention needs to be paid to the revenue side as revenue deficit constitutes more than two thirds of the fiscal deficit.

The economy performed reasonably well in 2002-03 despite a prolonged drought, boarder tensions and global slowdown, says the bank.

The RBI made a strong case for intensifying the reform process in agriculture, industry and infrastructure. There is an urgent need for strong domestic savings to finance the infrastructure projects, the report says. Though the year 2003-04 started off with excess rainfall, the performance of agriculture will continue to depend on the progress of monsoons in the months ahead.

The central bank said comfortable food stocks provided sufficient protection against any unexpected development. The industrial recovery needs to be reinforced by labour reforms, abolition of the urban land ceiling laws and removal of reservations for the small-scale industry, it said adding that the momentum of growth was sustained by the strong growth in manufacturing output in the first quarter of 2003-04.

"The revival of industrial activity in 2002-03 was led by consumer nondurables followed by capital goods, retail, infrastructure and an across the board pick up in export demand. In particulars, exports of automobiles and components, chemicals, basic metals, food products, beverages and tobacco were robust," says the report.

THURSDAY, AUGUST 14, 2003 Eco Times

MUTUAL FUNDS AND MALFEASANCE

LAST WEEK THE capital market regulator, the Securities and Exchange Board of India, took a decisive step forward in checking malfeasant acts in the stock exchanges. It banned Samir Arora, till recently the Chief Investment Officer of Alliance Capital Mutual Fund (ACM), from participating either directly or indirectly in the domestic capital market. The allegations have been of two kinds. The first charge is insider trading, a category of unethical practices that is as widely prevalent as it is difficult to prove. It is alleged that Mr. Arora traded on privileged information, basically price-sensitive corporate news, before it became public. Of the several cases that the SEBI will rely upon to substantiate its charge, the one concerning Digital Globalsoft stands out. It is alleged that Mr. Arora and his team dumped a large quantity of the company shares after coming to know of a potentially damaging valuation report before it became public. The second charge is that he tried to profit personally when the American principal, Alliance Capital, tried to exit from India. It is alleged that he favoured one prospective buyer, discouraging several others, ostensibly to earn a hefty commission in the event of the deal going through. Those acts damaged the interests of the unit holders, which Mr. Arora was supposed to uphold. Besides, insider trading, being totally opaque, discriminates against the general body of investors.

Few doubt that the regulator's action marks a defining moment for capital market regulation in India. It sends out several salutary messages simultaneously. It can set a valuable and badly needed precedent, an important gain to the nascent market regulation in India. Compared with banking and insurance, the capital market has been, for most of its existence, largely unregulated. The SEBI, which was constituted in 1989, more than a century after the Bombay Stock Exchange, remained a toothless body during its first three years. Even after acquiring legislative teeth in January 1992, the SEBI has had at best a mixed record, faring reasonably well in areas such as investor education but poorly in other areas where upholding the integrity of markets has been the issue. Since the 1990s, with trading volumes growing exponentially, the market regulator was seen to be one step behind those who committed questionable acts. There have been a few well-publicised instances of alleged insider trading where the regulator, despite having apparently clinching evidence, either failed to act in time or had its rulings overturned on appeal. Even in the developed financial markets, where there is more transparency and regulators have greater powers, countering insider trading has been a challenging task.

Given the multiplicity of cases in India, the regulator's strategy should be to focus energies on the most high profile of the cases and follow it through until exemplary punishment is awarded. There is little doubt that the present case is the perfect one to focus on. The accused has been a highly visible fund manager representing an internationally known mutual fund, having access to substantial dollar and rupee resources. Regulators and investors alike will keenly watch the outcome of his appeal against the ban. An even larger message concerns financial intermediation in its entirety. For almost a decade, mutual funds have been touted — even by policy makers — as a preferred investment route for investors in the share market. Although they failed to deliver in terms of returns, mutual funds were widely believed to be safer places to park savings. Now that one of the better-performing funds is in the dock, it is time to revise those facile assumptions.

Growth and democracy not inimical, says Amartya Sen

TIMES NEWS NETWORK

New Delhi: Nobel laureate Amartya Sen on Thursday demolished a number of popular myths, including the one that democracy slows down economic growth.

He suggested instead that a representative political system is as important as economic and social development and each kind of human freedom, in fact, leads to other freedoms.

Speaking at a Ficci-Shri Ram Centre seminar to discuss the theme of his book 'Development As Freedom', from an Indian perspective, Mr Sen urged the gathering of politicians, development planners, policy-makers, diplomats, businessmen and mediapersons to take an "adequately broad view of development." He pointed out that the concerns for human freedom, of being well-fed, well-clothed and well-emancipated are global and cut across all divisions—political, religious, racial and across gender as well. "Each type of freedom is not only an end in itself but also leads to other freedoms," Mr Sen said.

There is no empirical evidence to support the notion that democracy can slow down growth, he asserted, taking his audience through a comparative analysis of the socio-economic development in India and in South-East and East Asia, especially China, in the last five decades.

Mr Sen said the factors that led to phenomenal economic growth in Asian economies such as South Korea, Singapore and China are by now well-established. These include policies for economic competition, use of international markets, spread of education and land reforms. "None of these policies are inconsistent with democracy," he pointed out.

He said the economic achievements in South-East and East Asia were the result of "growth friendliness of economic climate rather than the fierceness of the political system".

Mr Sen debunked the theory that democracy cannot help those who do not form a majority. In his view, democracy is more than just a majority of numbers. It goes beyond the legal protection given to minorities.

He got back to his pet subject of study—famines—to illustrate the point. Typically, he said, a famine affected some five per cent of the population. But a democratic political system would prevent a famine because "elections are hard to win after a famine". Similarly, a relatively small number of starvation deaths in Kalahandi, for instance, raises huge public concern in India because it is a democracy.

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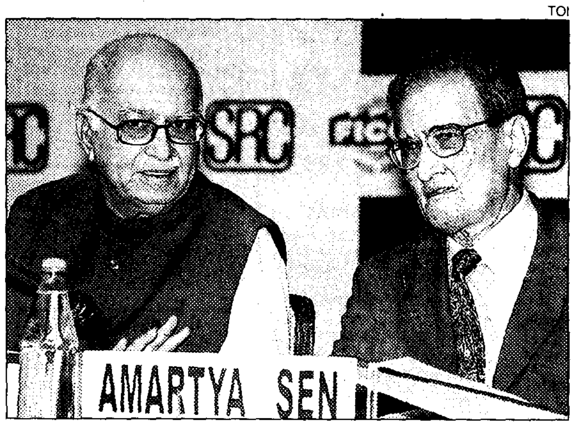

The concept of 'sarva panth sambhaav' is in harmony with the ideals of freedom, says Advani

Each type of freedom is not only an end in itself but also leads to other freedoms, says Sen

At the seminar deputy Prime minister L. K. Advani challenged Mr Sen and others to an open debate on the secular credentials of the Vajpayee government. He said: "Many well-intentioned people, including Prof Sen himself sometimes, have raised questions about our secular credentials. We are prepared for an open debate on secularism. We are prepared to argue our case with anybody that the Indian concept and ethos of 'sarva panth sambhaav' are in harmony with the ideals of freedom and development."

Mr Advani said the government neither believed in nor practised the ideology of exclusion and discrimination. "Doing so is completely antithetical to our belief in secularism or our understanding of Indian nationalism," he added.

1 AUG 2003

THE TIMES OF INDIA

Bullish FM says economy is going places

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Announces reforms in tax regime

TIMES NEWS NETWORK

New Delhi: Finance minister Jaswant Singh on Tuesday struck an upbeat note on the Indian economy, saying it was looking up, with the manufacturing sector and exports registering impressive growth and the inflation rate running low. Forex reserves, already at over $83 billion, would touch three figures in the "none-too-distant future", he predicted.

The FM, who was addressing the annual conference of top tax officials, announced a set of measures to remove fears of a "raid raj", simplify procedures, quickly settle tax disputes, speed up tax refunds and reduce harassment of tax-payers. Besides a national tax tribunal for uniform interpretation of income-tax laws, 50 more appellate I-T tribunals would be set up, he said.

"By the grace of god, so far the rains have been encouraging, inflation is at a single digit and forex reserves are buoyant," he told chief commissioners and directors-general of income-tax, excise and customs.

He said both the manufacturing and the services sectors were doing well. While exports were growing, imports were also rising. This, he said, indicated an economic buoyancy—in sharp contrast to last year. "The Gulf War is now over, the drought is over. Our granaries are full. India has to move on from here," the FM said.

"Even in a desert state like Rajasthan, people have 20 to 30 bags of wheat which they have earned by a programme. It is remarkable. It is a truly remarkable achievement by India," he said.

On tax administration, Mr Singh announced the introduction of the institution of an ombudsman for clearing tax disputes. Seeking to remove fears of tax raids, he said, "I have instructed that searches should be authorised only where credible evidence of substantial tax evasion exists. Search-and-seizure operations are to be resorted to with great care and utmost caution and to be undertaken only with orders from the director-general (investigations)."

The FM also announced the reduction of compounding fees. He said the present guidelines were restrictive and prosecutions were being launched even for technical breaches. There are 27,000 cases pending on this account alone.

Mr Singh also asked customs and excise officials to explore a similar scheme for compounding of offences on payment of full dues and penalties not exceeding five per cent of full duty.

Great expectations

- Forex reserves look set to reach $100 bn
- Exports are growing, inflation is low and everything is all right with the Indian economy
- Gulf War II has ended, drought is over and India has to move on from here
- Ombudsman to settle tax disputes
- No raids unless there is credible evidence of substantial tax evasion

THE TIMES OF INDIA

India hijacked

Who gains from these strikes? Certainly not the strikers, certainly not the nation

EVERY time the organised sector of the economy strikes work in the name of the "masses" and the "people", the worst hit are the masses and the people. Workers and employees in the organised sector, in government offices, nationalised banks and public sector companies, don't suffer a loss of pay for their day out on the street, but the rickshaw puller, the paan-shop vendor, the roadside teashop owner and scores of ordinary people who depend on daily wages and income from a normally functioning economy are hurt by such general strikes, bandhs and hartals. The least hurt by such strikes are the policy-makers against whom such action is supposedly directed. So who gains?

Bank employees in the nationalised banking sector have made striking work a habit. By doing so they are hurting their own interests in the long run because they are bound to lose customers to private banks over a period of time. Considering the fact that so many public sector bank employees have opted for voluntary retirement schemes and then found find jobs in the private sector, it is clear that they have nothing against working in the private sector. So why such strikes?

That these actions are largely political is by now well known. If more proof were needed one has to only look at the regional incidence of the action. New Delhi functioned like a normal city despite the strike call, while Kolkata ground to a halt, as it always does. If the political party in power in Kolkata stops giving official sanction to such strikes that city may also function as normally as other cities. The economic demands of the bank employees, as indeed of other PSU workers, are not warranted, and their political demands are not legitimate. Why should employees strike work to protest against policies of a duly-elected government in a democracy? There are better and more democratic ways of protesting against government policy in a democracy than striking work. The economic cost of not working is something India can hardly afford. As it is periodically crippled by far too many public holidays. Every day that government offices, banks and factories are closed, the growth of national income is hobbled. So who gains?

2 3 MAY 2003

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NDIAN EXPRESS

Country to stop work for a day

OUR SPECIAL CORRESPONDENT

New Delhi, May 20: Around 40 million workers of all major trade unions, barring the RSS-affiliated Bharatiya Mazdoor Sangh and the Congress-controlled Intuc, will go on a day's nationwide strike tomorrow protesting the Centre's "anti-worker" economic policies.

Defence minister George Fernandes' Hind Mazdoor Kisan Panchayat, led by his brother Michael, and the unions of 39 ordnance factories and some defence employees, too, will support the strike, Citu general secretary M.K. Pandhe said.

Mass organisations of the Left parties, comprising students, women, youths and farmers, too would join in, Pandhe said at a press conference here today. Also joining in would be port and dock workers.

According to the Citu leader, the BMS and the Intuc, though not part of the strike, are also opposed to the Centre's "anti-worker" policies.

Criticising the Centre's "callous attitude", Pandhe said labour minister Sahib Singh Verma called the participating unions to a meeting on May 19, though they had submitted the notice to the Centre on March 12.

The meeting proved futile as the trade unions failed to reach an agreement with Verma on their demands, including early halt to privatisation of profit-making undertakings, reversal of proposed labour policies, restoration of 12 per cent provident fund interest rate, immediate enactment of comprehensive legislation for agricultural workers and amendment of the Bonus Act.

Widening social security schemes for all, including workers in the unorganised sector, and restoring quantitative restrictions on imports were the other demands.

With Citu president E. Balanandan and secretary W.R. Varadarajan by his side, Pandhe said "tomorrow's strike will be the biggest manifestation of the indignation of the masses of the country against the anti-national, anti-people policies of the BJP-led NDA government".

Left unions accused the Intuc and the BMS of backtracking despite deciding on the strike after a thorough discussion among all trade unions. Intuc leaders, however, said they were never consulted.

The participating central trade unions include the Centre of Indian Trade Unions (Citu), the All India Trade Union Congress (Aituc), the Hind Mazdoor Sabha and the United Trade Union Congress.

Unions of major banks, including the Reserve Bank Employees' Association, the All India Bank Employees' Association and the All India Bank Officers' Confederation, insurance workers and confederations of Central and state government employees will also participate.

21 MAY 2003

THE TELEGRAPH

MONETARY POLICY AND MACROECONOMIC GOALS

THE MONETARY AND credit policy for the year 2003-04, in line with all recent policy statements, is devoid of any spectacular announcements or policy changes. Looking at the way it has been evolving over the past few years, the monetary policy has come to be regarded as an authoritative review of macroeconomic and monetary developments coupled with an insight on the central bank's stance regarding certain critical areas of the economy. Whatever headline-grabbing news such as a bank rate cut there is, appears to be purely incidental. The RBI expects the GDP growth during 2003-04 to be 6 per cent, assuming a reasonable monsoon. For last year, the RBI's original forecast of GDP growth at 6 to 6.5 per cent was upbeat but had to be lowered during the year to a modest 4.4 per cent. While that is attributable to the decline in agricultural output, the overall performances of the industrial sector and services have been higher compared to the previous years. The RBI's projection of a higher macroeconomic growth during the current financial year brings into focus its monetary stance, which over the past few years has remained virtually unchanged. Provision of adequate liquidity to meet credit growth and support investment demand has been one basic tenet. The other has to do with the interest rate environment, with the RBI continuing to favour a softer and flexible interest rate regime. It is in amplifying its traditional stance that the recent monetary policy has to cover fresh ground to take care of the current economic variables.

A topical issue is the resurgence of inflation after having seen a steady and sustained decline. By the end of March 2003, the rate of inflation as measured by the Wholesale Price Index (WPI) on a point-to-point basis was at 6.2 per cent. It had remained below 4 per cent up to mid-January. The implication of this is obviously on the interest rate policy. A drastic fall in all types of market interest rates was possible only because of a benign inflation environment. The RBI expects the current pressures the price front to ease shortly. Even before cessation of the Iraq war, global oil prices h started coming down and there have been t reductions in the domestic oil prices since. abundant food stocks helped in checking p increases in food items. However, the in forecast of the South West Monsoon has been positive. Manufacturing activities, nov a strong recovery mode, are likely to add to pricing pressures: the prices of their prod will be conditioned by the buoyant demand remain sticky. It is therefore certain that the will have to remain vigilant while tracking flation. The advantages of a soft interest regime, aided by an abundant liquidity, are parent. It has helped the Government in its rowing programme and spurred credit off Whether the same favourable factors will and soft interest continues in the foresee future however remains to be seen. Among er factors that will have a say are the gr prospects and investment demand beside inflation outlook. Moreover, certain una pated domestic and external development upset policy calculations on the interest front as much as in the management of th ternal reserves, now at an unprecedente billion plus. The RBI has been consistently doctrinaire in its approach to those two co nents of monetary policy.

The reductions in the bank rate from 6.2 cent to 6 per cent and in the CRR from 4. 4.50 have to be viewed in their proper per tive. Very likely the changes have been either to signal a softer interest rate (throu bank rate) or meet a reform target (CRR On current economic variables alone, th probably not justified. Interest rates migh bottomed out and there is abundant liq The main message, however, is the need flexible in monetary matters. This year, w flation likely to be a major concern, the oft-repeated advice needs to be re-emph

THE HINDU

1 MAY 2003

THE HINDU

1 MAY 2003

FINANCE BILL PASSED; NO VAT TILL ALL STATES ARE READY

Reliefs on textiles, edible oils

By Alok Mukherjee

:W DELHI, APRIL 30. The Union Finance inister, Jaswant Singh, managed to suc-ssfully steer the Finance Bill 2003 rough the Lok Sabha today but drew ık mostly from members of the BJP and ıme of the allied parties who seemed early disappointed with the conces-ons announced by him.

Mr. Singh announced that the value lded tax (VAT) would not be introduced ıtil all the States were in a position to ıplement it and also assured members at there was no proposal to impose in-me tax on agriculture. However, the ncessions regarding the textile sector ew flak from BJP members such as Ma-n Lal Khurana, who felt that Mr. Singh d not done enough for the powerloom ·avers and readymade garment manu-:turers. Mr. Khurana demanded a gher cut-off limit for garment expor-'s, which was firmly turned down by › Minister. Mr. Khurana left the House en before voting on the bill could be mpleted.

Some Shiv Sena members, in particu-Prashant Paranjpe, continued to ckle the Finance Minister for not rais-; the monetary amount under the ·mbers of Parliament Local Area De-opment (MPLAD) Scheme. Mr. Para-ıe threatened a hunger-strike and sat the well of the House for sometime till ıer members and the Parliamentary Affairs Minister, Sushma Swaraj, talked him out. But the dissatisfaction continued with some other Shiv Sena members threatening a division on some of the proposals of the Finance Bill during the voting stage.

They were finally prevailed upon by Ms. Swaraj, who got them an audience with the Prime Minister after the House was adjourned.

For the middle class, the only benefit pertained to tax exemption in respect of insurance policies whose premium exceeded 20 per cent of the sum assured in any of the years. In his budget speech, the Minister had withdrawn the exemption since he felt such policies were, in essence, more in the nature of instruments of investment and not much for covering of life risk. Mr. Singh has now done away with any retrospective application of the budget proposal and henceforth, income earned on policies taken before April 1, 2003, will continue to enjoy tax exemption.

The Minister amended another of his budget proposals pertaining to exemption from long-term capital gains on equity shares. As per the amendment, the exemption will be limited to equity shares appearing in the list of BSE 500 as of March 1, 2003, and where transactions of purchase and sale are on a recognised stock exchange in India.

This exemption will also be extended to equity shares allotted through a public issue on or after March 1, 2003 and listed on recognised stock exchanges before March 1, 2004.

For political parties, Mr. Singh exempted from income tax the income from capital gains as is the case with income from house property, other sources and donations for such parties.

He also announced that in case of compensation paid to accident victims under the Motor Vehicles Act, there would be no tax deduction at source where the interest awarded on compensation did not exceed Rs. 50,000. Certain benefits available to the tea industry and extended to the coffee industry were also extended to the rubber industry.

The Minister yielded on his budget proposal for eight per cent ad valorem excise duty on branded refined edible oils and vanaspati packed in sealed containers for retail sale and imposed a specific excise duty rate of Re. 1 a kg on refined edible oils and Rs 1.25 a kg on vanaspati. These new rates would be applicable to products both branded and otherwise.

Simultaneously, he lowered the customs duty on RBD palm oil from 85 per cent to 70 per cent and exempted refined palm oil from the Special Additional Duty of about four per cent.

This lowering of the import duty on RBD palm oil raised howls of protest from members from the southern States, cutting across party lines, and matters came under control only after the Minister explained that refined palm oil accounted for only three per cent of such imports, while crude palm oil accounted for 93 per cent.

Still, with members unsatisfied, he promised to revisit the issue in case domestic producers of coconut or groundnut oil were adversely affected because of the cheaper palm oil imports.

Mr. Singh said it was possible that a number of powerloom owners were not filing income tax; nor did they have proper books of accounts.

Still, in case they wanted to declare their stocks for availing Cenvat (Central VAT) benefits, they could declare their stocks not exceeding Rs. 10,000 a powerloom and no questions would be asked about the past. There would be no retrospective application or consequences.

The Minister also fully exempted from excise duty unprocessed fabrics up to the first clearance of Rs. 20 lakhs, provided they were woven by powerloom units with an annual turnover below Rs. 25 lakhs.

He also proposed full excise duty exemption on unbranded woven and knitted readymade garments up to their first clearance of Rs. 25 lakhs provided the annual turnover did not exceed Rs. 30 lakhs. However, this Rs. 30-lakh limit was not appreciated by some members who wanted it to be raised to at least Rs. 50 lakhs. The Minister turned down the demand.

LENDING, DEPOSIT RATES MAY DECLINE

RBI cuts Bank Rate, CRR

By Oommen A. Ninan

MUMBAI, APRIL 29. Indicating a strong bias towards a soft interest rate regime, the Reserve Bank today cut the Bank Rate — the rate at which RBI provides funds to commercial banks — by 25 basis points reducing it to six per cent with effect from the close of business today. The Bank Rate is also an indicative rate for the banking system and the banks are likely to resort to further cuts in the lending and deposit rates.

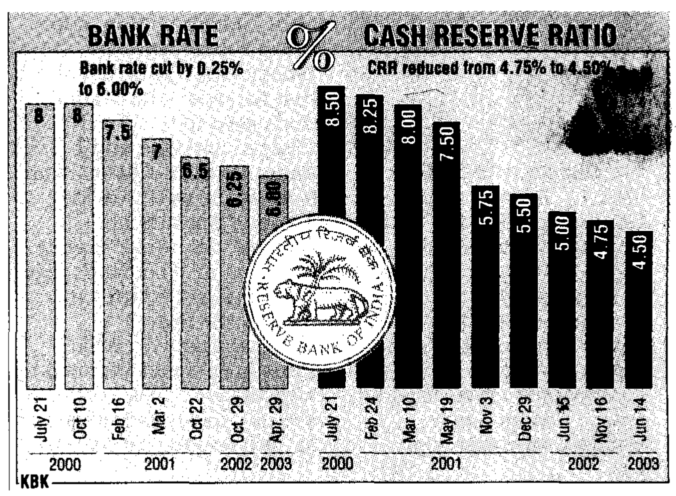
The RBI also cut the Cash Reserve Ratio (CRR) — the amount of cash kept by the individual banks with the RBI — by another 25 basis points to 4.5 per cent effective June 14, 2003, which would augment Rs. 3000 crores to the banking system.

The Bank Rate has been reduced from 11 per cent to six per cent, i.e., by 500 basis points in the last five years. "This is the sharpest reduction in the Bank Rate since Independence," said Bimal Jalan, RBI Governor, while announcing the Monetary and Credit policy for the year 2003-04 here, today. However, he said that "unless the domestic and international circumstances change, the policy bias in regard to the Bank Rate is to keep it stable until the mid-term review of October 2003."

"There were many uncertainties on the international front and domestically we had a bad drought last year. Against this backdrop the Monetary and Credit Policy was formulated," Dr. Jalan said. However, he said, "conditions in the country are now quite favourable for growth and the central bank will continue with the present stance of preference for a soft and flexible interest rate environment within the framework of macro economic stability."

Giving an indication of the future, Dr. Jalan said that "in view of several structural constraints, it is likely that the present nominal and real interest rates are now relatively low and may not have significant potential for future sizeable downward movement in India."

The Governor of the Reserve Bank of India, Bimal Jalan, before announcing the annual monetary policy, in Mumbai on Tuesday. — Reuters



As regards the projection for the Gross Domestic Product (GDP), he said the overall growth rate for the year 2003-04 largely hinged on a sustained upturn in the industrial and services sectors and recovery in agriculture output. "Assuming a satisfactory spatial distribution of the monsoon and if rainfall is around 96 per cent of the long-term average, the growth rate of GDP in 2003-04 could be placed at six per cent."

Mr. Jalan said the increase in inflation in the last quarter of 2002-03 was dominated by certain commodities such as edible oils, oil cakes and mineral oils. Based on the present assessment of relevant factors, the Governor indicated that the inflation rate in 2003-04 might be placed in the range of 5 to 5.5 per cent compared to last year's inflation rate of 6.2 per cent.

While the prices of edible oils increased sharply partly because of drought, the domestic mineral oil prices increased substantially in the wake of the sharp rise in international oil prices. "The prices of these items are now expected to decline during the course of the year," Dr. Jalan said.

Reactions on Page 16

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INDIAN EXPRESS

ECONOMIC LIBERALISATION

HT-11-26/4

Centre to work on 'big thrust'

Jay Raina
New Delhi, April 25

THE VAJPAYEE government is set to work on a new set of policy initiatives to carry forward its economic liberalisation even as the disinvestments issue continues to dog the Central government.

As a prelude to the "big thrust" of the new economic agenda, the government proposes to create public awareness through the mass media – the visual media in particular.

A concept paper is currently under preparation in the Finance Ministry's Department of Economic Affairs. The media campaign is to be launched soon after the Prime Minister's approval.

The initiatives covering a large number of critical economic Ministries and Social Sector Departments will be set in motion by June for time-bound implementation within the current fiscal.

The agenda that is presently being finalised in the PMO includes formulation of a new civil aviation policy to comprehensively address issues related to the civil aviation industry, ensuring private participation in non-captive coal mining through appropriate legislation, measures to promote Research & Development investments by FDI, earnings from R &D exports to be treated as any other export gains for IT purposes and reorienting content of SEZ and Competitive Economic Zone Policy that provides for world class infrastructure through private participation and hassle-free regulatory regime in areas such as taxation, customs and labour.

As regards corporate reforms, transparency is to be ensured in corporate governance on the lines of the US's Sarbannes-Oxley Act. A fresh thrust will be provided to early enactment of amendments to Labour laws apart from finalising a clear-cut Government response to the recommendations of the Fourth Labour Commission.

Government sources told the *Hindustan Times* that the Prime Minister is committed to go ahead with the NDA agenda on economic reforms. "The impending State Assembly elections towards the year end that are expected to be followed by the Lok Sabha polls later next year are not going to dampen the spirit of the Government's resolve to carry forward its economic agenda," they asserted.

Sources explained that the new initiatives had been put together by short-listing schemes from a plethora of Ministerial/Departmental plans for pinpointed thrust and achievement of optimum results within a time-bound framework.

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AI, IA taken off disinvestment list

J. Gro Atran

By Our Special Correspondent

NEW DELHI, APRIL 15. The Government today decided to withdraw Air- India and Indian Airlines from the disinvestment process in view of the huge investments proposed to be made shortly for fleet acquisition. With this decision, much of the steam has gone out of the disinvestment process. In addition, it has decided to cancel the process for 10 more public sector undertakings, the cases of which are being returned to their administrative ministries.

In the case of the Shipping Corporation of India (SCI), however, the foreign equity ceiling is being raised from 25 to 51 per cent and the entire process of strategic sale is being restarted.

Disinvestment Ministry officials said that the Civil Aviation Ministry was not in favour of continuing with the process of disinvestment of AI and IA as the fleet acquisition plans running into thousands of crores of rupees were due to be implemented soon. In such a scenario, it did not make sense to go ahead with privatisation.

According to the Disinvestment Minister, Arun Shourie, who was briefing newspersons after a meeting of the Cabinet Committee on Disinvestment (CCD), in any case "no work was going on" for these two public sector companies. He said: "They have been taken off the list for disinvestment."

Regarding the SCI, Mr. Shourie said the lukewarm response to strategic sale was attributed to the 25 per cent ceiling on foreign direct investment (FDI). Since 100 per cent FDI was already allowed in the shipping sector, the CCD felt the ceiling could be raised to 51 per cent. In view of the changed terms, the process would, however, have to be restarted. Replying to a question, he said the existing two bidders for the company were Essar and Sterlite Industries.

The only new major public sector company for which the CCD has cleared disinvestment is the fertilizer giant, Rashtriya Chemicals and Fertilizers (RCF). It has decided to reduce the government equity from 92.5 per cent to 51 per cent through strategic sale. Similarly, it is proposed to begin the process of disinvestment for the National Building Construction Corporation (NBCC).

16 APR 2003

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16 APR 2003

THE HINDU

16 APR 2003

THE TIMES OF INDIA

A-I, IA taken off disinvestment list

New Delhi: The government on Tuesday gave a formal burial to plans for privatisation of Air-India (A-I) and Indian Airlines (IA) by striking them off the disinvestment list even as it decided to privatise profit making Rashtriya Chemicals and Fertilisers (RCF).

The decisions were taken at the meeting of the Cabinet Committee on Disinvestment (CCD), chaired by Prime Minister A.B. Vajpayee, which also decided on fresh bids for the Shipping Corporation of India (SCI) to attract foreign entities besides setting the guidelines for workers to participate in the privatisation process.

Announcing the decisions taken at the CCD meeting, disinvestment minister Arun Shourie said 51 per cent equity in Fertiliser PSU Rashtriya Chemcials and Fertiliser would be sold to a strategic partner.

"Civil aviation minister (Shahnawaz Hussain) proposed that IA and A-I should be taken off the disinvestment list and the finance ministry has also suggested it to enable fleet expansion in the two carriers," Mr Shourie told reporters adding that the proposal was accepted as his ministry was not doing any work on these PSUs.

Heeding to the long pending demand from workers of PSUs that are being privatised, the government announced guidelines for employees to bid for the companies put on the block which among other things stipulated that such bids could be considered only if these are within 10 per cent of the highest bid.

Stating that such a demand was first made in case of A-I where the Pilot's Guild sought to take over the airline, Mr Shourie said employees could now form a consortium or a special purpose vehicle, alongwith a bank, venture capitalist or a financial institution for bidding for government equity in a public sector firm.

"However, employees will not be permitted to form a consorta with other companies," he said.

Regarding SCI, he said though there were two bidders—Essar and Sterlite—still in the race, the CCD decided to seek fresh bids for 51 per cent stake in the company for which any foreign company could participate in line with 100 per FDI allowed in the shipping sector.

The CCD approved a formula for the sale of ITDC hotels built on land given by the state government. As per the new norm, 75 per cent of the bid price would be treated as the value of land and 25 per cent would be the worth of thebuilding and the business. PTI

VAT given the go-by for now

By Our Special Correspondent

NEW DELHI, APRIL 1. Almost all the States have given the go-by to the April 1 deadline for switching to the value added tax (VAT) system despite having given a commitment to do so at the National Development Council meeting late last year. A meeting scheduled for April 8 of the Empowered Committee of the State Finance Ministers is now expected to work out the new implementation schedule but some doubts have already cropped up whether the meeting will take place as scheduled or not.

While the lack of preparedness was the main reason for the States' inability to move over to the new taxation system, the root cause, however, was political opposition to the move. The powerful traders lobby successfully organised a two-day countrywide bandh against introduction of VAT and this had the tacit support of many political parties as well.

According to official sources, many States ran out of steam to prepare the necessary legislation once States such as Delhi, Punjab and Himachal Pradesh openly announced that they would not be switching to VAT on April 1.

Political delegations of the BJP and the Congress also called on separately the Union Finance Minister, Jaswant Singh, to press for its postponement.

According to official information, as of today only one State had cleared the necessary legislation for implementation of VAT while six others have sent it for Presidential assent. Of the 28 States, only Madhya Pradesh had obtained the Presidential nod while Karnataka and Andhra Pradesh sent in their VAT Bills to the Centre as late as this evening, Finance Ministry officials said.

West Bengal and Gujarat had sent their Bills on Saturday while Maharashtra and Kerala sent it this Monday. But, as many as 20 States are not ready with their VAT legislation or have not presented them for the Presidential nod. Once the VAT Bills are approved by the State Assemblies, they are reviewed by the Union Finance Ministry and then sent to the President.

Without passage of the VAT legislation, the new tax cannot be imposed, the Finance Ministry officials said.

The delay in VAT implementation is taking place despite the Centre's promise to fully compensate the States which suffer revenue loss due to the new tax regime. Moreover, the Centre would also phase out the Central Sales Tax (CST) from four per cent to two per cent in the first year when VAT is put in place. Other State-level taxes like turnover tax and sales tax would also go.

"Unless every State implements VAT, it is not possible for the Centre to phase out CST. You cannot have differential rates in two neighbouring States," official sources said.

Consequently, countrywide VAT is not likely in the immediate future since the States going in for elections this year would like to postpone it till after the polls.

Next year, apart from some of the State Assemblies, the general elections are due.

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VAT's the problem

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Delay the tax for better implementation

Sometimes deadlines are better missed. India is supposed to switch to a value added tax (VAT) from 1 April. But given the current state of confusion, a deferred date, 1 July, has been suggested, or even later. This makes sense. VAT, which has been fixed at a countrywide uniform rate of 12.5 per cent on all but a few commodities, is based on the simple idea that one man's output is another's input in the production/sales process and a tax should paid on the value added at each stage. In practice this is achieved by allowing firms to claim tax refunds on the inputs used on the basis of tax paid certificates issued by input manufacturers. A problem arises for firms sourcing their inputs from outside the state where they manufacture. Refunds from other state governments will require a fair degree of coordination. State tax administrations will need more time for this. Industry will need more time to understand the rules. That is difficult if rules have not been framed yet. Only three states — Kerala, MP and Maharashtra — have had their VAT bills cleared by Assemblies. Many are in the process of doing so while states like Himachal Pradesh, Tripura and Delhi have not even cleared a draft with the Centre.

Other grievances on VAT are however less convincing. Fear of fall in state revenues has been adequately addressed. The budget's Rs 700 crore VAT compensation is part of a formula which makes good 100 per cent revenue loss in the first year, and 75 per cent and 50 per cent, respectively, in the second and third years. Compensation for the abolition of the Central sales tax is also guaranteed. All this should be enough to begin with. Some state governments have argued that VAT will be inflationary. This will be true only if a majority of commodities in a state are currently taxed at rates lower than the 12.5 per cent VAT. In fact, most states have general sales tax levels higher than the VAT rate. So, prices are likely to go down. In some cases, like diesel, which is taxed at 8 per cent in Delhi, prices will go up post-VAT and they may do so as the state government faces elections. But that is hardly a good economic reason to not impose VAT. Politicians have also complained that small traders will see their earnings squeezed. If prices do not go up generally after VAT, retail trade will have lower margins. But that is not what traders and their political backers are really worried about. Their problem with VAT is that the system of tax paid certificates makes evasion, now rampant, very difficult. Conservatively, for every rupee of excise revenue, 50 paise is evaded. VAT will not allow such luxuries since a firm will have to go through the complicated process of forging input tax receipts and then claim refunds. This is one reason for delaying VAT that must be ignored.

PUBLIC-PRIVATE PARTNERSHIP FOR INFRASTRUCTURE

THE UNION BUDGET has, quite predictably, given a thrust to physical infrastructure. Building of roads has been given special attention, with 48 new roads, covering a distance of over 10,000 km at an estimated cost of around Rs. 40,000 crores, planned. Interestingly, these will be outside the targets set for the ambitious golden quadrilateral project, which has made headway. The Railways too will have their share of Government finances over and above what has been provided under the Railway budget: projects worth Rs. 8,000 crores under the National Rail Vikas Yojana will be taken up. Two airports, Mumbai and Delhi, and two seaports, the Jawaharlal Nehru Port Trust (JNPT) at Navi Mumbai and the Kochi Port, are to be modernised to international standards. As part of the infrastructure initiatives, the Government will help in establishing two world class international convention centres at an estimated cost of Rs. 1,000 crores and help the private sector build two new airports at Bangalore and Hyderabad.

Since mere announcements in the budget speech evoke scepticism, the Government has done well in outlining a broad policy and financial framework for making the above projects viable. There are indications as to how the money will be found. A cess of 50 paise per litre of diesel and petrol has already been levied to raise about Rs. 2,600 crores for road development. Other financing proposals are less clear at this stage but the Government is planning to rely heavily on certain relatively new concepts to bring about the required infrastructure development. While public investment will continue to be critical, the private sector will be encouraged to participate in a much bigger way, through some innovative moves. In essence, public money is to be leveraged more meaningfully through private partnership. The Government will also avoid the common pitfalls of infrastructure funding so far. For instance, open-ended guarantees of the type that cost it very dearly in the power sector will be avoided. The festering legal fracas over the Dabhol project, which collapsed in the wake of the inability of the State and Central Governments to honour their legal commitments, cannot obviously be forgotten. The Government will therefore share the risks more equitably with the private sector and closely monitor the release of public money for specific projects coming up in partnership with the private sector. Elaborating on a theme that is going to be very relevant for public finances, the Government will ensure the implementation of modern, prudent financial practices for furthering infrastructure. Thus, roads funded on a build-operate-transfer basis (BOT) will get Government subsidy only in the form of an annuity flow to meet the shortfall between anticipated receipts and payments. And market borrowings that are necessary for the new railway projects will be retired by earmarking a portion of the receipts. It is hoped that the new guidelines will be followed in letter and spirit. Only then will the desired thrust to infrastructure take place.

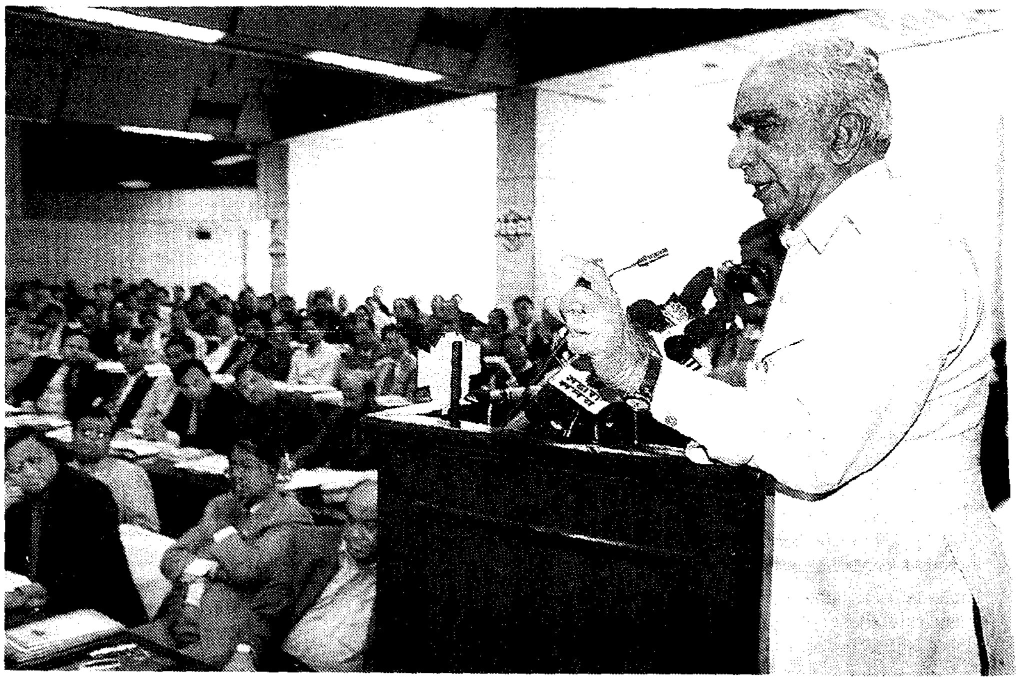
The budget closely follows the initiatives taken by the Government over the past few years and by the RBI recently. For the private sector to participate more comprehensively, the projects will have to be made bankable. Incentives to the mainline financial system to prop up funding have already been given. Among the other areas that deserve an equal and immediate attention are regulatory concerns and the need to educate the users of infrastructure services on weighty matters such as the payment of user charge. As the experience in the telecom arena indicates, it is never easy to address critical issues brought in by competition. The power infrastructure, for which the budget had disappointingly few messages, is expected to progress only after the passage of the Electricity Bill by Parliament. Public-private partnerships, common in the developed world, can spur India's infrastructure only if there is a proper understanding of the concept and the common concerns of all the stakeholders — the users, the private promoters as well as the Government — are taken note of.

THE HINDU 7 MAR 2003

CONFERENCE ON BUDGET / HEALTH SCHEME 'REVOLUTIONARY

Abolition of long-term capital gains tax not now: Minister

By Our Special Correspondent



The Finance Minister, Jaswant Singh, interacting with the FICCI members on the Union budget in New Delhi on Saturday. — Photo: Sandeep Saxena

NEW DELHI, MARCH 1. Refusing to rightaway give any assurance regarding abolition of long-term capital gains tax totally, the Union Finance Minister, Jaswant Singh, however, said the issue could be considered by him only "if the difficult war-like situation in Iraq and drought condition in the country eases."

"There are constraints in managing the economy because of the uniquely combined challenge of drought situation, war-like situation in Iraq, crude oil prices soaring to $35 a barrel and a recalcitrant neighbour," he said, addressing the National Conference on Union Budget 2003-2004 which he presented in Parliament yesterday.

The capital markets are depressed not only in India but also globally and in such a situation he did not want to fully abolish long-term capital gains tax at this juncture.

However, he told the captains of Indian industry that the "war like situation has to some day dissolve itself and if he finds that this place becomes reassuring, he can readdress the question. But I cannot at this moment give the assurance which you seek".

On the demand that the LIC's pension schemes announced in the budget be opened to private insurers as well, Mr. Singh said he would consider it.

As the fiscal situation was a cause for worry, the budget attempted "a balance of fiscal responsibility. We cannot continue with revenue profligacy, " he added.

Debt management was another area where far-reaching steps had been taken. The measures announced would help debt-swap of at least Rs. 83,000 crores of States' debts besides Rs. 40,000 crore repayment of high cost government securities of banks, which were in a way non-performing assets. These, together with prepayment of about $ three billion ADB and World Bank loans early this week would improve the debt situation, he claimed.

Describing as "revolutionary" the proposed health scheme, the Finance Minister said with payment of rupee one per month, every citizen could be assured of medical facility. Since the Government was unable to apportion more resources to improve medical facilities due to paucity of resources, the scheme would help find the money necessary to run government hospitals and citizens would be able to avail medical facility in select government hospitals.

Defending the dividend distribution tax of 12.5 per cent, he said it was difficult to assess if it was taxed at the hands of recipients. "It is simpler to tax dividend at source".

His response to apprehensions of industry representatives that the dividend distribution tax would lead to cascading effect was that "it is a view point and we will re-examine it."

He asserted that value-added tax (VAT) would be in the benefit of trade and commerce. VAT was a State law and the Centre would ensure that there was uniformity in the legislation.

Further Central sales tax would be gradually phased out as it could not continue in tandem with VAT in perpetuity.

On Kelkar panel's report, he said, "it is not merely tax rates that we have to deal with. It has to be larger than that. The tax rates are one part but there were other administrative and procedural issues that the task force had addressed."

Elaborating further, he said from coercion and a regime based on mistrust "we are moving to a system based on trust." The Government intends to implement universal green channel for customs clearances."

The Finance Minister also asserted that the Government had been able to address the needy sectors of the industry.

"The foundation of an economy is the manufacturing sector. One has to encourage the sector but you cannot address all the sectors. One has to be selective based on certain criteria," Mr. Singh added referring to the thrust given to infrastructure, textiles, gems and jewellery and tourism.

Earlier, welcoming the Finance Minister, the FICCI chief, A.C. Muthiah, lauded the Finance Minister's business-like approach in introducing cash management of Government finances, simplification of tax procedures and smooth transition to value added taxation.

A slew of measures for medicare

By Our Special Correspondent

NEW DELHI, MARCH 1. Declaring promotion of people's health as one of the priority concerns of the Government, the Union Finance Ministry announced a slew of measures to improve the access to better medicare facilities for all categories of people.

A highlight of the package is removal of excise duty on life-saving drugs that currently attract nil or five per cent customs duty and reduction of customs duty on specified life-saving equipment from 25 per cent to five per cent.

In addition, customs duty on brailles, artificial limbs, hearing aids, crutches, wheelchairs, walking frames, tricycles and ophthalmic blanks have been reduced to five per cent. Glucometers and test strips used by diabetic patients would also be cheaper, as the customs duty on them has been halved from 10 per cent.

The package, announced yesterday as part of the Union budget for 2003-04, includes a cut in the excise duty on Nicotin Polacrilex gum from 16 per cent to eight per cent to help smokers kick the habit, and offers tax incentives to encourage the private sector to set up new medical facilities or expand the existing ones.

The proposal is to extend the benefits of section 10 (23 G) of the Income Tax Act to financial institutions that provide long-term capital to private hospitals with 100 beds or more.

As per this section, income earned by financial institutions by way of interest on loans provided to such hospitals would not attract tax. At present, the scheme is applicable only to projects in the areas such as housing, telecom services, power-generation and infrastructure development.

The budget also proposes to launch a community-based universal health insurance scheme for those living below the poverty line.

Under the scheme, a premium of Rs. 365 for an individual, Rs. 547 for a family of five and Rs. 730 for a family of seven would entitle a reimbursement of medical expenses upto Rs. 30,000 towards hospitalisation, Rs. 25,000 in case of death due to accident, and a compensation of Rs. 50 a day for a maximum of 15 days in case of loss of earning because of illness. The Government would contribute Rs. 100 per family every year to make the scheme affordable to them.

Mr. Singh said the measures had been designed keeping in mind three objectives: contribute to enhanced national health, promote India as a global health destination and enable easier access to health facilities to the disadvantaged sections of society.

RULING PARTIES SCORE IN BYELECTIONS

Cong. wrests Himachal, Left retains Tripura

9-Election

NEW DELHI, MARCH. 1. Rising from its Gujarat debacle, the Congress today stormed back to power in Himachal Pradesh ousting the Bharatiya Janata Party in the predominantly Hindu State falling just short of a two-thirds majority and was placed in a position to cobble up a coalition in Meghalaya, but lost power in Nagaland.

In Tripura, the ruling Left Front, which has been in Government since 1992, maintained its stranglehold securing 35 seats while the Opposition Congress and its new-found ally, INPT, together managed seven seats each of the 49 seats declared so far.

An anti-incumbency wave appeared to have delivered the shock for the BJP in the hill State of Himachal Pradesh, where attempts by the Hindutva's latest icon Narendra Modi to weave his "Gujarat magic" failed. Many BJP stalwarts, including the Speaker, Gulabchand Thakur, the State unit president, Jaikishan Sharma, and 15 Ministers were humbled.

The Congress' Chief Ministerial candidate, Virbhadra Singh, won handsomely with a margin of more than 17,000 votes in Rohroo. The Chief Minister, P.K. Dhumal, retained his Bamsan seat.

An elated Congress president, Sonia Gandhi, said the results had nailed the BJP's propaganda of a "so-called" Hindutva wave throughout the country. The BJP president, M. Venkiah Naidu, said dissidents and rebels were to be blamed for the defeat.

The Prime Minister, Atal Behari Vajpayee, and the Deputy Prime Minster, L.K. Advani, will meet other party leaders on Sunday to analyse the rout.

The CPI (M), the major partner in Tripura's ruling Left Front, secured an absolute majority on its own winning 32 seats in the 60-member House, while its partners, the RSP and the CPI won two seats and one seat respectively.

As Nagaland headed for a hung Assembly, the NSCN (I-M)-supported Naga People's Front, with 15 seats out of 46 declared so far, may find itself in a better position to cobble up a coalition with anti-Congress parties like the BJP (five), JD-U (two), Samata Party (one) and some others.

The Congress, which ruled the State for long, has bagged only 18 seats so far in the 60-member Assembly. Counting of votes was still on in 11 seats. Polling has not been completed in three constituencies.

In Meghalaya, the Congress, which did not have a formal alliance with its coalition partners in the outgoing Government, was better placed to form a government having emerged as the single largest party with 22 seats in a 60-member House.

Ms. Gandhi indicated that the party might tie-up with the NCP and others including UDP, MDP and HSPDP to form the government. Together, these parties have bagged 51 seats. Independents have secured five seats and the BJP and KHNAM two each.

The Opposition BJP, which had three members in the Assembly, managed to win only two seats, while its ally, the Garo National Council lost its lone seat.

Ruling parties today won six of the seven Assembly byelections held in six States with the Congress bagging two, while the Opposition Samajwadi Party prevented a clean sweep by them clinching the prestigious Haidergarh Assembly seat in Uttar Pradesh.

The Congress won two seats in Humnabad (Karnataka) and Ratabari (Assam). The two seats at stake in U.P. were shared by the Bahujan Samaj Party and the SP, with the former snatching the prestigious Gauriganj Assembly seat falling in the Amethi Parliamentary constituency. The BSP nominee, Jung Bahadur, registered a convincing victory over Fateh Bahadur of the Congress in Gauriganj by over 7000 votes while the BJP, which was second in the last elections by a thin margin, has been pushed to the third spot.

The BSP gamble of fielding a Thakur for the Gauriganj seat in the backdrop of the Opposition allegations that the community was angry with Ms. Mayawati following the stern action taken against the independent legislator, Raghuraj Pratap Singh alias Raja Bhaiya, by arresting him under POTA, too has paid off well. In Haidergarh, it was a loss of face for the BJP with the SP candidate wresting the seat from it.

In Jammu and Kashmir, Chief Minister Mufti Mohammed Sayeed's People's Democratic Party today scored its first electoral victory after assuming power four months ago as its candidate won the Pampore assembly byelection by an impressive margin of 12,782 votes. The strength of the PDP in the 87-member House has gone up to 17.

The candidate of the Nationalist Congress Party, a constituent of the Congress-led ruling coalition in Maharashtra, emerged victorious in Bokharden, while the AIADMK triumphed in Sattankulam in Tamil Nadu.

In Assam, the Congress candidate, Kripanath Mallah, won the Ratabari seat defeating his nearest BJP rival Sambhu Singh Mallah by 31,170 votes. The Congress candidate polled 49104 votes, while his opponent got 17934 votes. The election was necessitated by the death of the independent MLA, Ratish Ranjan Choudhury. — PTI

Party positions: Page 8

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THE HINDU

PLENTY OF GIVEAWAYS

Singh presents growth-seeking budget

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UNION BUDGET 2003-04

Fiscal deficit at 5.6 per cent of GDP in 2003-04; slippages in 2002-03.

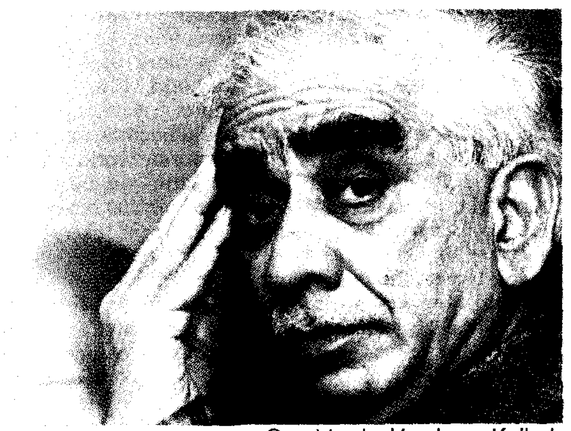
No surcharge for income below Rs. 8.5 lakhs.

Standard deduction up for income below Rs.5 lakhs.

Tax relief for senior citizens; new pension plan.

Central Sales Tax reduced to two per cent.

Dividend tax on shareholders abolished; capital gains exempt.



Graphics by Varghese Kallada

REACTIONS

"The budget will have no impact on reviving growth, kick-starting and restoring government finances to health."

— Manmohan Singh, Congress leader

"No scheme for employment generation or relief to the working class"

— Somnath Chatterjee, CPI(M) leader

"I congratulate Jaswant Singh for coming up with a development and growth oriented budget."

— Chandrababu Naidu, Chief Minister, Andhra Pradesh

REFORM MEASURES

- PPF, NSC rates cut by 1 per cent.
- Value added tax from April 1.
- 75 more items go off SSI list.
- FDI cap up to 74 per cent in banks; fillip to M&As.
- Fertilizer prices up.
- Peak customs duty cut to 25 per cent.
- High cost government debt to be restructured.
- Restrictions on overseas investment by firms eased.
- Leeway for companies to prepay foreign debt.

NEW PROPOSALS

- Public-private partnerships for infrastructure.
- Health insurance scheme for the poor.
- Package for textile industry.
- Fillip to tourism, gem and jewellery industries.
- Cess to replace excise on tea.
- Pension fund regulatory authority to be set up.
- 48 new road projects planned at a cost of Rs. 40,000 crores.
- Electronic filing of Income tax returns to be introduced.

DIRECT TAXES

- Income tax rebate for educational fees.
- Surcharge on corporate tax slashed to 2.5 per cent.
- 10 per cent surcharge on high income earners.
- VRS money is exempt from income tax.
- Higher IT rebate for disabled.
- Income tax deductions on housing loans to stay.
- Direct crediting of IT refunds to bank accounts.
- Tax holiday for satellite telecom firms for 1 year.

INDIRECT TAXES

- Service tax up to 8 per cent, net widens.
- Higher cess on petrol, diesel.
- 1 per cent national calamity contingent duty on select items.
- Customs duty on gold reduced.
- Excise duty removed on select products.
- Excise on soft drinks, cars, air-conditioners cut.
- Excise duty on cement up.
- Life saving drugs to cost less.

RBI cuts interest rate on savings

MUMBAI, FEB. 28. The Reserve Bank today reduced interest rate on saving accounts offered by banks and repo rate by 0.5 per cent in view of the Finance Minister, Jaswant Singh's budgetary announcement that small savings and PPF rate would be cut by one per cent.

"The savings account rate has been cut from 4 per cent to 3.5 per cent per annum effective tomorrow in view of the current macro-economic and overall monetary conditions," the RBI Deputy Governor, Rakesh Mohan, told newspersons here.

It also cut the repo rate (repurchase rate for government securities) by 0.5 per cent at 5 per cent with effect from March 3. Thereafter, as at present, the cut-off rate for acceptance of bids for one day and 14 days repo would be decided by the RBI at each auction, he said. Detailed operational guidelines or directives would be issued separately. — PTI

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A CAUTIOUS BUDGET

THE UNION FINANCE Minister, Jaswant Singh's first budget is a pragmatic one, which combines a modest fiscal package for more rapid growth with sector-specific concessions and incentives. This may not be a budget of major giveaways that has an eye on the polls, but with the economy in the midst of a slowdown the Finance Minister has sensibly refused to adhere to fiscal orthodoxy. The Union budget for 2003-04 does offer tax sops to a wide range of taxpayers and, aware of his party's directives, Mr. Jaswant Singh has refused to bite the Kelkar bullet on removing exemptions and reducing tax rates. If anything, the budget expands the exemption raj and at the same time reduces some tax rates, which was precisely what the Kelkar task force had warned against. At the same time, the budget is not without a sting in the tail. There is the higher cess on motor spirit and diesel (which is strange coming as it does when global crude prices have touched the $40 a barrel mark), a cess on specific commodities to replenish the National Calamity Contingency Relief Fund and the service tax has been uniformly raised from 5 to 8 per cent even as 10 new services have been brought into the tax net. All these measures could push up prices, albeit modestly.

The centrepiece of the budget is, however, the restoration of some realism and integrity to the budgetary process even as Mr. Jaswant Singh has looked for innovative measures to finance investment in infrastructure that would accelerate growth. The highly unrealistic budget projections for 2002-03 (which included fanciful estimates of a 20 per cent growth in tax revenue) have come to nought and the drought was not the cause of the numbers going awry. Expenditure has been kept under control in the current fiscal year, but the slippage has been on the receipts front — tax revenue has fallen short of the target and disinvestment proceeds will of course be just a quarter of the projections. For next year, the budget has pitched gross tax revenue growth at a more modest 13 per cent though once again receipts from disinvestment have been projected at a large Rs. 13,200 crores. Revenue receipts are budgeted to increase by a shade over 7 per cent and total expenditure by 8.6 per cent. The result is that the fiscal deficit next year is estimated at 5.6 per cent of GDP, which is higher than the 5.3 per cent level that was budgeted for 2002-03. If the Finance Minister has chosen to relax the purse strings, this does not mean that the budget provides for a substantially higher Plan investment. The Central Plan next year will be 8 per cent larger than this year and gross budgetary support for the Central and State Plans only 6 per cent larger, which does little more than account for the effect of inflation. Since this is as far as Mr. Jaswant Singh thought he could go, the budget has come up with "off-budget" measures to finance investment. The idea of public-private partnerships is the one singular innovation in this budget. Beginning in 2003-04, an estimated Rs. 60,000 crores is to be spent on new road, rail and airport projects, envisaging public money being combined with private funds, with the risks being shared and without open-ended Government guarantees. This may be one way of getting round inefficiencies in public execution of infrastructure projects, without at the same time giving a blank cheque to private enterprises. But this is an idea which is yet to be tested out in the country and there must, therefore, be a big question mark over whether public-private partnerships can fill the gap in investment immediately and on such a large scale.

While the budget has refused to make a virtue out of fiscal stringency, it has not completely ignored the tasks in fiscal consolidation. The most important step it has proposed is the debt swap of high-cost debt, which should over a three-year period immensely help the States. It has also proposed a very small hike in the prices of urea and di-ammonium phosphatic fertilizers to cope with the likely rise in global naphtha and gas feed-stock prices. But going by the initial critical reactions to this proposal it will take considerable resolve by the Government to go through with this proposal. One concern about Mr. Jaswant Singh's package must surely be the continued large reliance the Centre is making on market borrowings. The budget projects market loans next year of as much as Rs. 1,07,194 crores, compared to the revised estimates for 2002-03 of Rs. 99,953 crores. In a regime of soft interest rates, as at present, this may not matter. However, this ever-increasing recourse to market borrowings makes the debt and interest burden on the Government heavier each year. The expenditure category that will show one of the largest increases in 2003-04 is defence where the budget provides for a 17 per cent hike in allocations for revenue and capital outlays. Since actual expenditure in defence has consistently fallen short of allocation, this hike may not materialise, but the Finance Minister has made it clear that if the Defence Ministry makes a case for even larger funding it will be granted.

All said and done, Mr. Jaswant Singh has produced a clever budget which offers something for many groups and demonstrates that a budget should be a product of both economic and political thinking. To signal that he is not impervious to the concerns of the underprivileged, the Finance Minister has announced the expansion of the Antyodaya Anna Yojana, which has been reasonably successful in channelling subsidised cereals to the poorest of the poor. He has also announced a new group health insurance scheme where premiums to be paid by the poor will be partially subsidised. For the urban salaried, who are hardcore supporters of the BJP and were offended by last year's budget proposals and by the Kelkar recommendations, the Finance Minister has offered a higher standard deduction, tax rebates for education expenses, a new subsidised pension scheme and abolition of the 5 per cent surcharge on income tax. For the more well to do, there is the abolition of the dividend tax (the third change in policy in six years) and an experimental exemption from tax of equity long-term capital gains. Individual industries too have been offered incentives, the most notable being the package for the textile industry.

Incentives and concessions are not something to be always frowned upon, but the problem arises when they are put through in an ad-hoc manner under pressure from interest groups. This is most evident in the package on indirect taxes. In line with the Government's long-term approach, the budget has reduced import tariffs on a range of products and also brought down the peak customs duty from 30 per cent to 25 per cent. It is in excise duty that an ad-hocism is evident. Where earlier the Government had put forward a strong argument for bringing all commodities other than essential products into the excise net, this budget has restored exemptions on a number of commodities. Such ad hocism does not make for stability in tax rates and structure, which the Finance Minister asserted would govern his approach to taxation. The same criticism could be made of the hike in service tax, which has no justification other than as a revenue mobilisation exercise.

Mr. Jaswant Singh's projections assume a GDP growth of 6 to 6.5 per cent next year and considering that this pace of growth has not been recorded in the past three years there is a lot riding on the proposals contained in the 2003-04 budget.

UNION BUDGET / UNIQUE, SAYS VAJPAYEE

Full of token measures: Cong.

By Our New Delhi Bureau

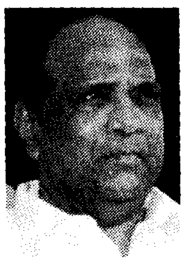
NEW DELHI, FEB. 28. Union budget proposals today evoked a sharp reaction from the Opposition which charged that it would have little impact in reviving growth and investment and restoring the government finances to health.

The lack of enough support to agriculture drew criticism, both from the Opposition and allies which demanded a rollback in the prices of fertilizer and diesel. Lending its voice to the demand was the Telugu Desam Party and the Indian National Lok Dal. The BJP felt that the proposals were "innovative and people friendly" but views within the allies made the party note that there was an increase in the price of urea and other fertilizers.

The Prime Minister, Atal Behari Vajpayee, described it as a "unique budget of its kind" which attempted to find solutions. The five areas of priorities outlined by the Minister gave details of requirements of Indian economy and expectation.

For the first time, Mr. Vajpayee said, concerns with regard to all facets of life which Mr. Singh said he had addressed to, would come true. He had implemented all the promises he made in housing, agriculture, industry and relief to elder persons. Criticising the proposals, the Congress said that it was full of "token measures" to deal with serious problems.

"The budget will have no impact on reviving growth, kick-starting investment and restoring Government finances to health," the party leader, Manmohan Singh, said. The party charged that there was nothing new in the "supposedly new schemes" including the public-private partnership for funding infrastructure project. Referring to the tax system, he said, it had been made more complex and claims about rationalisation of both excise and customs duties conveyed an impression of "persistence of ad hocism and multiplicity of rates", he said. The reduction of interest rates would hurt the interests of workers and investors in public provident fund and small savings scheme.



Another party leader, Balram Jakhar, dubbed it "anti-farmer" and said the proposals neglected 80 per cent of the people who depended on the farm sector. Sharing his concerns were two allies of the NDA, the Telugu Desam parliamentary and the Indian National Lok Dal as also the Left parties. The INLD demanded a rollback of additional excise duty on diesel and fertilizer prices of urea and DAP.

Expressing disappointment, the TDP leader, K. Yerran Naidu, said the Government could not achieve a higher growth rate by keeping the budgetary allocation for agriculture at last year level.

The Congress MP, Jyotiraditya Scindia, saw fault in the form of insignificant rise in public investment and lacking in any roadmap to revive the economy.

While the former Prime Minister, Chandra Shekhar, said: "You cannot expect anything more from them", the Samajwadi Party chief, Mulayam Singh, said there was nothing for the farmers and poor in the budget.

"This is an election budget." The NCP president, Sharad Pawar, said "the budget takes no steps to improve farm production, while there will be additional burden of rise in fertilizer prices. Very little support has been extended to the textile and sugar industry. Three new areas of taxation have been opened in milk cooperatives, Agriculture Produce Marketing Committee and savings of small unorganised sector. For the middle class basically there is status quo".

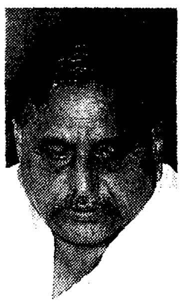
The AIADMK Parliamentary party leader, P.H. Pandian, said that while the Government had taken good care of senior citizens, the increase in diesel could not be appreciated.

The Left parties attacked the budget for not containing proposals that could generate employment, growth or give a boost to agriculture, industry and small-scale sector.

The CPI(M) Parliamentary party leader, Somnath Chatterjee, said that it was not certain how many from the private sector would respond and associate in infrastructure development. The budget did not have any scheme for employment generation or relief to the working class.

The CPI national secretary, D. Raja, said the thrust of the budget was privatisation of economy and corporatisation of the social sector. Keeping elections in view, the budget tried to please the salaried class. The increase in diesel and cement would lead to an overall increase in the price of various commodities.

The All-India Forward Bloc found the budget as 'Magna Carta' for privatisation of the social sectors. "The budget reveals that it is an attempt to gratify the corporate houses, monopoly capitalists, importers and the rich people," the party general secretary, Debabrata Biswas, said.



Echoing similar views, the CPI(ML) charged the budget would increase the burden on already overburdened workers, poor peasants and lower middle class while it gave respite to the rich and upper middle class of society. The Janata Dal (Secular) said the budget neglected the farming sector which was "inexcusable".

Support for the proposals came from the Bharatiya Janata Party president, M. Venkaiah Naidu, who described it as "growth oriented, progressive, innovative and people-friendly budget. Like the Prime Minister, he complimented the Finance Minister for taking a "holistic view" of the fiscal situation in the country.

Budget exceeds all our expectations: CII

By Our Special Correspondent

NEW DELHI, FEB. 28. Barring odd reservations, the 'please-all-budget" of the Finance Minister, Jaswant Singh, was virtually lapped up by the apex industry chambers and trade bodies as something that went beyond their expectations. No wonder there were bouquets for him all the way.

The feel-good factor generated by the Union budget 2003-04 for trade and industry was best reflected in the Chamber of Indian Industry's (CII) response to the Finance Minister's proposals. "We expected a growth-oriented, reform-oriented budget... But we couldn't imagine the extent to which he would take the reform process forward".

"This Union budget 2003-2004 takes into account almost all of the CII's recommendations and in fact has exceeded all our expectations," said the CII chief, Ashok Soota.

Anand Mahindra and Tarun Das, vice-president and Director-General of the CII respectively said, "this budget is a class act. It balances economic and political needs, creates an environment for entrepreneurial growth; and is sensible as it goes forward on tax reforms and rationalisation." While this apex body was happy with virtually all the key elements of this budget, the FICCI congratulated the Finance Minister for his well-conceived and constructive proposals.

The FICCI chief, A.C. Muthiah, hailed as progressive and historic the steps aimed at rationalisation of tax structure in general and introduction of value-added tax (VAT) in particular as well as emphasis on development of infrastructure with initiation of new projects on airports, ports, roads and railway, besides the introduction of fiscal consolidation measures, including cash-management systems in Government departments.

Mr. Jaswant Singh's maiden budget was "a well-conceived blueprint for taking the country to an altogether higher growth trajectory, Dr. Muthiah said.

Welcoming what he called the visionary approach adopted by the Finance Minister towards fuelling growth, the ASSOCHAM chief, R.K. Somany, felt that Mr. Singh missed out on the opportunity to give a much-desired fillip to the capital market. He also faulted him for not addressing adequately the question of boosting rural economy except encouraging farmers to move towards value-added products.

The Indian Chamber of Commerce and Industry said the budget contained far-reaching proposals which could help India to move towards fiscal consolidation. The PHDCCI chief, P.K. Jain, said extension of tax incentives for certain sectors in which India had proven capabilities should help enhance the export potential.

Vinod Chandiok, National President of the Indo-American Chamber of Commerce, said the budget was bold and challenging. TERI welcomed the rationalisation of Fertilizer subsidies. Nikhil Johri, CEO of Alliance Capital Asset Management, was of the view that the impact of budgetary announcements on mutual fund industry would be quite positive.

Electronics and Computer Software Export Promotion Council hailed the export focus of the budget and said continuance of the incentives under Sections 10 A and 10 B of the Income Tax Act would help bolster the export efforts from the country.

The chairman, Appollo Hospitals Group, Pratap C. Reddy, hailed the recognition of healthcare as a priority sector in the budget after 30 years. He said he was delighted at the Government's landmark decision regarding the community-based Universal Health Insurance for the masses. The Model proposed by the Government, he said, was in line with a unique initiative launched by his group some years ago. Analjit Singh, Chairman, Max India, hailed the priority accorded to the health care and said the inclusion of private capital under Section 10 (23G) for the expansion and establishment of 100-bed and larger private hospitals would help improve and expand the scope of healthcare services.

The real-estate industry said that the budget had good news for it. "You can fault him (the Finance Minister) on the matter of budgetary discipline for the fiscal deficit level. But he should be given credit for taking that risk" was the comment from R. Seshasayee, Managing Director, Ashok Leyland, who added that "controlling fiscal deficit is not, by itself, an absolute must"

Budget, 2003: Growth will be the test

FOR someone who has repeatedly asserted that he is no economist, Jaswant Singh has done as well as any economist would have under the present circumstances. At a time when his party is in election mode and Singh was clearly charged with the task of delivering a set of populist measures, he has come up with a solid growth-oriented budget that will provide a fresh impetus to the economic recovery. The time is right for just such a budget. As the finance minister pointed out, India continues to have a current account surplus for the first time in 24 years, our foreign exchange reserves are a high $75.7 billion (in the third week of February) but the economy is sluggish and in need of some external stimulus to aid growth.

At the same time, low inflation and a sharp decline in interest rates have provided the finance minister with some flexibility to embark on a significant fiscal consolidation and debt restructuring measure in his budget. Over the next three years Singh plans to save state governments an estimated Rs 81,000 crore in interest and deferred loan repayment for the residual maturity period. He hopes to achieve this by swapping loans of approximately Rs 100,000 crore, bearing a high coupon of 13 per cent and allow them to contract loans at lower interest rates. According to Singh, all but two states have agreed to be part of his restructuring plan. The government will also buy back its domestic debt contracted at high interest rates from banks that need quick liquidity or want to sell debt to provide for their bad loans.

On the negative side, the fiscal deficit remains at a high 5.7 per cent, but one would argue that the country could live with this deficit if the minister manages to deliver on his promise of economic growth. Jaswant Singh said that infrastructure development, fiscal consolidation through tax reforms, agricultural reforms and a restructuring of the duty structure for the industry would form the core of his budget exercise. And he has come up with significant proposals in all these sectors. The budget provides over Rs 60,000 crore for big-ticket infrastructure projects in road building, port and airport modernisation and railway projects. This, along with the incentives for the housing sector to individuals and builders will lend buoyancy to core industries such as steel, cement and finance.

There are several proposals to move agriculture and the plantation industry up the value chain and improve price realisation. In addition, there is a serious attempt to make the tax machinery more transparent and accountable, by adopting the recommendations of the Kelkar committee report. These measures will go a long way in reducing harassment of taxpayers and in automating the tax collection and investigation procedures. The minister deftly ignored the two controversial Kelkar Committee reports on direct and indirect taxation almost in their entirety by brushing them off with big dose of empty praise for generating a pitched debate on taxation policies.

In addition, the budget has a slew of populist measures, with some goodies for various segments of society. There are tax breaks on education for two children, a move to fund sports infrastructure, several incentives for the health sector, including tax and duty cuts on specified medical equipment, and tax incentives for setting up private hospitals. The minister also made the long overdue announcement to set up a Pension Fund Regulatory and Development Authority, with specific schemes to reorganise the opaque pension and provident fund sector that had caused some panic in the wake of the Home Trade scam.

However, announcements such as the health insurance policy to be offered by General Insurance Corporation (GIC) and a pension facility to be offered by Life Insurance Corporation (LIC) need careful consideration. It is a matter of great discomfort that the FM continues to announce policies on behalf of GIC and LIC, when both institutions are operating in a highly competitive market, and ought to make their decisions purely on business considerations. The LIC pension scheme for senior citizens (Varishtha Pension Bima Yojana) is more reprehensible. First, it shows that the government has learnt nothing from the "assured return" fiasco of Unit Trust of India (UTI) even after it has paid or earmarked nearly Rs 18,000 crore of taxpayers fund to bail out the institution in the last three years. Yet, the finance minister has thought nothing of assuring a high 9 per cent return under the pension scheme, and even promised to make good any shortfall in earnings by LIC from the exchequer. This would make it an assured return scheme with an explicit government guarantee.

INTERESTINGLY, while Jaswant Singh has earned kudos from industry, the capital market's reaction to Jaswant Singh's budget has been unusually muted. That is probably because the market's expectations were far too high, and although the minister seems to have delivered on many of their expectations, most of his announcements come with an interesting twist. For instance, the reduction in capital gains tax becomes applicable only next year and has a curious one-year validity. While dividend has been exempt in the hands of individual investors, the liability has been passed on to companies. Similarly, investors have yet to work out the implications of the increase in the service tax incidence. Although the Foreign Direct Investment (FDI) ceiling for private banks and the removal of the 10 per cent cap on voting rights has been welcomed, investors were disappointed that FII investment limits in government banks have not been increased.

The attitude to public sector disinvestment is another disappointment. While the disinvestment target has been missed by a huge margin, the government hopes to raise Rs 15,000 crore. However, it must be said that the capital market too realises that Jaswant Singh has succeeded in laying a solid foundation for growth and if his government is able to implement his various proposals and deliver on all his promises, the economy and corporate earnings are bound to recover and stock indices would eventually take wing.

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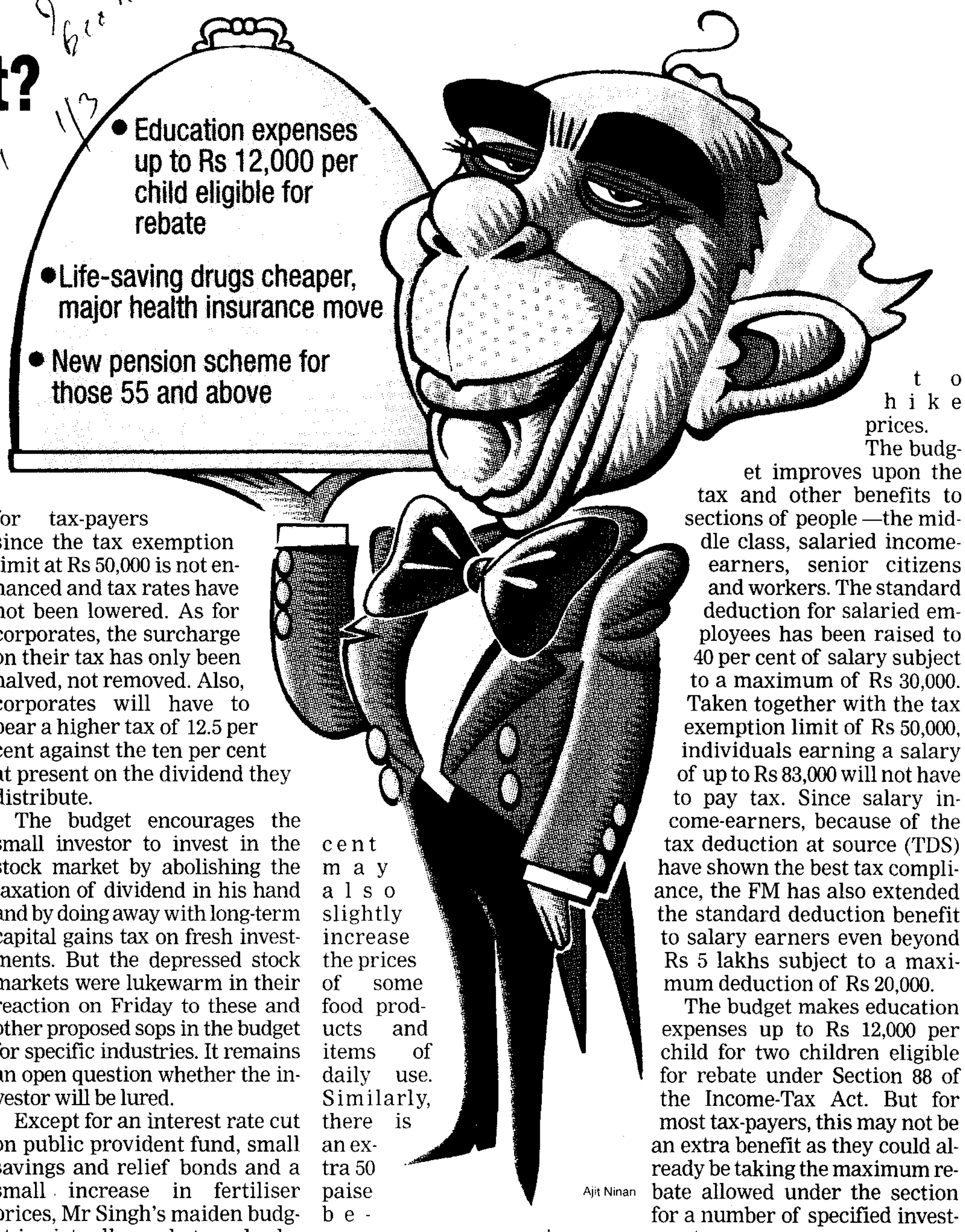
1 MAR 2003

It smells good, but..

..will it pass the taste test?

By Priya Ranjan Dash
TIMES NEWS NETWORK



New Delhi: On the face of it, Jaswant Singh is giving it all on a platter—lower taxes, cheaper goodies like cars and air-conditioners, a rebate for educating children, pension schemes for older people. There's more. The dividend you earn from shares will now be tax free, and if you're thinking of calling it a day, you won't have to pay tax on your silver handshake up to Rs 5 lakhs.

For your kitchen, pressure cookers, cutlery and tableware will all cost less, as will toys and bicycles for your kids. For those who like a swig of Scotch or Bordeau in the evening, the finance minister has held out the promise of a cheaper tipple. And for gold-crazy Indians, customs duty on the yellow metal has been slashed to Rs 100 per 10 grams from Rs 250.

A great menu? Perhaps. But take a closer look at the ingredients. The service tax rate has been increased from five to eight per cent, which means, among other things, higher phone and credit card bills. Worse still, ten new services have been brought into this dragnet, including coaching centres, annual maintenance contracts and cyber cafes. Even that tax rebate on education is a bit of a fudge.

All told, Mr Singh's menu is long on promises but short on substance. What little extra money it puts in our pockets could well be wiped out by inflation should war break out in Iraq or government borrowings continue unchecked.

Most tax-payers will pay less, but only marginally, because the budget rejects the Kelkar committee proposals for tax reforms and adds more to the existing maze of exemptions in the income-tax regime. It removes the five per cent surcharge for individuals earning up to Rs 8.5 lakhs, but enhances the surcharge to ten per cent for higher income-earners.

There is no substantial benefit for tax-payers since the tax exemption limit at Rs 50,000 is not enhanced and tax rates have not been lowered. As for corporates, the surcharge on their tax has only been halved, not removed. Also, corporates will have to bear a higher tax of 12.5 per cent against the ten per cent at present on the dividend they distribute.

The budget encourages the small investor to invest in the stock market by abolishing the taxation of dividend in his hand and by doing away with long-term capital gains tax on fresh investments. But the depressed stock markets were lukewarm in their reaction on Friday to these and other proposed sops in the budget for specific industries. It remains an open question whether the investor will be lured.

Except for an interest rate cut on public provident fund, small savings and relief bonds and a small increase in fertiliser prices, Mr Singh's maiden budget is virtually made to order by the electoral demands of his party and ruling coalition.

There are some other elements in the overall package that one would have wished were not there, but these are unlikely to hurt. The one percentage point cut in the small savings rate will give people less for their savings, which they may not mind as long as inflation too rules low.

An adjustment in excise rates from four per cent to eight per cent may also slightly increase the prices of some food products and items of daily use. Similarly, there is an extra 50 paise being added to the Re 1 road fund cess on petrol and diesel that will add to the price increase oil companies are effecting every fortnight now because of the spurt in global crude prices.

Mr Singh has also sugar-coated the budget by keeping an inevitable hike in the prices of kerosene and cooking gas out of the budget. The subsidy bill is mounting to such a level that the government is likely to take the first political opportunity it gets to hike prices.

The budget improves upon the tax and other benefits to sections of people —the middle class, salaried income-earners, senior citizens and workers. The standard deduction for salaried employees has been raised to 40 per cent of salary subject to a maximum of Rs 30,000. Taken together with the tax exemption limit of Rs 50,000, individuals earning a salary of up to Rs 83,000 will not have to pay tax. Since salary income-earners, because of the tax deduction at source (TDS) have shown the best tax compliance, the FM has also extended the standard deduction benefit to salary earners even beyond Rs 5 lakhs subject to a maximum deduction of Rs 20,000.

The budget makes education expenses up to Rs 12,000 per child for two children eligible for rebate under Section 88 of the Income-Tax Act. But for most tax-payers, this may not be an extra benefit as they could already be taking the maximum rebate allowed under the section for a number of specified investments.

Senior citizens and pensioners, however, have got an extra rebate in tax. The tax rebate has been increased to Rs 20,000. As a result, their income up to Rs 1.53 lakhs (Rs 1.83 lakhs in the case of a senior citizen on pension because of standard deduction) will become fully exempt from income tax.

● See Edit: Jaswant's Manifesto, Page 12
● Pension for senior citizens, Page 6

NDA allies want rollback of fertiliser prices

TIMES NEWS NETWORK

New Delhi: Minutes after the finance minister completed his first budget speech, the BJP's allies in the NDA publicly expressed their discontentment with the proposal to hike the fertiliser prices and demanded that this decision be reversed.

In fact, there were murmurs of concern from the NDA allies even while Jaswant Singh was reading his speech in the Lok Sabha. They joined the opposition in pointing out that the hike in fertiliser prices would hurt farmers and adversely impact the agriculture sector.

Several allies, including the TDP, the Shiv Sena, the Samata Party and the Akali Dal, later said they would urge the government against implementation of these proposals and voice their concern during the budget debate. This public criticism by the allies indicates that like his predecessor, Mr Singh will also come under increasing pressure on the touchy issue of fertiliser subsidies.

Talking to reporters, TDP leader Yerran Naidu said that while his party welcomed the tax proposals and the investments in infrastructure, it was dismayed about the decision to raise prices of fertilisers like urea. Besides, he said, the agriculture sector had not been given sufficient emphasis in the budget.

Meanwhile, BJP president Venkaiah Naidu met the Prime Minister shortly after the finance minister presented the budget to ask him to consider rolling back the hike in the price of fertilisers.

Announcing this, Mr Naidu added that his party's parliamentary wing, which will meet here on Tuesday, will discuss the issue as the party is concerned that the measure will hit the farming community. "We want the government to think seriously about urea and fertiliser prices and we hope that by the time the budget is discussed in parliament, it willhave arrived at some solution," Mr Naidu said.

Text of Finance Minister's speech

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

Research and development

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

Textiles

93. In industry, textiles is the largest employment provider in the country. It also contributes substantially to our exports. The main thrust of my proposals for the textile sector, therefore, is to have a moderate rate structure; to complete the CENVAT chain to promote compliance; to encourage modernisation; and, to eliminate evasion. Keeping these objectives in view, as a package of incentives, the following measures are proposed:

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

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

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

96. Simultaneously, it is necessary to give a helping hand to the power-looms. For this decentralized sector, it is proposed to strengthen the existing programme for Induction of Technology in the Weaving Sector further by offering a 'Power-loom Package for Modernisation'. This package will have the following three features.

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

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

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

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

Pharmaceuticals

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

Information technology (IT)

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

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

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

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

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

Bio-technology

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

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

Tourism

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

a) withdraw the expenditure tax;

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

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

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

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

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

Gems and jewellery

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

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

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

Strengthening ECGC

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

Small-scale industry (SSI)

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

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

Promoting India: India Development Initiative

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

Disinvestment

118. Disinvestment receipts for the current year are estimated at Rs.3360 crore. I am confident that the pace of disinvestment will accelerate in the coming year. I wish to also state that details about the already announced Disinvestment Fund and Asset Management Company, to hold residual shares post disinvestment, shall be finalized early in 2003-04. Mr. Speaker, Sir, disinvestment is not merely for mobilizing revenues for the Government, it is mainly for unlocking the productive potential of these undertakings, and for reorienting the Government, away from business and towards the business of governance.

IX. OTHER REFORMS

Banking

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

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

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

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

Interest rate

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

Capital account

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

- To enable diversification, overseas investment under the automatic route will be permitted to corporates with a proven track record, even where the investment is not in the same core activity. Further, the current restriction, limiting such investment to 50 per cent of the net worth of the Indian company, will now be raised to 100 per cent.
- Prepayment of ECB dues under the automatic route will be permitted by removing the current ceiling of US $100 million.

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

External aid

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

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

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

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

Reform and reorganisation of the Ministry of Finance

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

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

> There are more salaried taxpayers at income levels of Rs 2 lakh and above than the non-salaried. I do often wonder, why? That is why the salaried always complain, saying they do not have... a level playing field; I agree they do suffer a more exacting regime

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

X. TAX REFORM, REVISED ESTIMATES AND BUDGET ESTIMATES

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

State-level Value Added Tax (VAT)

131. The Conference of State Chief Ministers, presided over by the Prime Minister, held on October 18, 2002 confirmed the final decision that all States and Union Territories would introduce VAT from April 2003. The Empowered Committee of State Finance Ministers, on February 8, 2003, has again endorsed the suggestion that all State legislations on VAT should have a minimum set of common features. Apart from avoiding cascading of taxes, the introduction of VAT is expected to increase revenues as the coverage expands to value addition at all stages of sale in the production and distribution chain. However, in view of the apprehensions expressed by a large number of States, about possible revenue loss, in the initial years of introduction of VAT, the Central Government has agreed to compensate 100 per cent of the loss in the first year, 75 per cent of the loss in second year and 50 per cent of the loss in the third year of the introduction of VAT; this loss being computed on the basis of an agreed formula.

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

Additional excise duty (AED) in lieu of sales tax

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

Service tax: a proposed Constitutional amendment

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

Central Sales Tax

135. With the introduction of VAT, there is need to now phase out the CST, and move to a completely destination-based system. This can not be done in one step. We must let VAT stabilize; but also recognize that these two – VAT and CST – cannot remain in tandem, in perpetuity. Therefore, in the first instance, the ceiling rate of CST for inter-State sale between registered dealers will be reduced to 2 per cent during 2003-04, with effect from a date to be notified. The Government of India will compensate the States for loss of revenue from this reduction of the CST. This will be done, as all these steps have been undertaken, only after arriving at a consensus with the Empowered Committee of State Finance Ministers.

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

Task Forces

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

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

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

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

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

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

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

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

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

DIRECT TAXES

Rates

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

Standard deduction

147. There are more salaried taxpayers at income levels of Rs.2 lakh and above than the non-salaried. I do often wonder, why? That is why the salaried always complain, saying they do not have – that cliché phrase – a level playing field; I agree, they do suffer a more exacting regime. Therefore, as already announced, their standard deductions are raised.

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

Tax deduction at source

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

Not ordinarily resident

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

Administrative reform

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

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

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

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

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

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

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

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

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

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

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

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

Indirect taxes: excise

Rationalisation and relief

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

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

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

- Unbranded surgical bandages
- Registers and account books
- Umbrellas
- Kerosene pressure lanterns
- Articles of wood
- Imitation zari
- Adhesive tapes
- Tubular knitted gas mantle fabrics
- Walking sticks
- Articles of mica
- Bicycles and parts
- Toys
- Mosaic tiles
- Utensils and kitchen articles
- Knives, spoons and similar kitchenware/tableware
- Glasses for corrective spectacles

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

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

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

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

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

Transport

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

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

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

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

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

Trade facilitation measures

167. For trade facilitation, I propose to take the following measures,-

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

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

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

National Calamity Contingency Fund

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

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

Service tax

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

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

Indirect taxes: customs

External liberalisation

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

Rationalisation and relief

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

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

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

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

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

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

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

Capital goods and infrastructure

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

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

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

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

Trade facilitation

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

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

186. Sir, my proposals made in this budget on the Direct Taxes will result in a revenue loss of Rs.2,955 crore while the proposals relating to indirect taxes will result in a gain of Rs.3294 crore.

Revised Estimates for 2002-2003

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

188. Net tax revenues for the Centre are estimated to be Rs.164,177 crore compared to the Budget estimate of Rs.172,965 crore, thereby reflecting a shortfall of Rs.8,788 crore. Non tax revenue is estimated at Rs.72,759 crore, Rs.619 crore more than the estimated level of Rs.72,140 crore. However, disinvestment receipts, at Rs.3,360 crore are lower than the Budget estimate of Rs.12,000 crore.

Budget Estimates for 2003-2004

189. In the budget estimates for 2003-2004, the total expenditure is estimated at Rs.438,795 crore, of which Rs.120,974 crore is for Plan and Rs.317,821 crore for non-Plan.

Plan expenditure

190. In order to strike the right balance between the developmental needs on one hand and fiscal stability on the other, the Gross Budgetary Support (GBS) for Plan 2003-04 has been fixed at Rs.120,974 crore. This is Rs.7,474 crore more than last year, indicating an increase of 6.6 per cent. Out of this, an amount of Rs.72,152 crore is being provided as Budget support for Central Plan. This is an increase of Rs.5,281 crore, or 7.9 per cent, over the last year. Similarly, the Central Assistance for State Plans has been pegged at Rs.48,822 crore, which is Rs.2,193 crore more than last year.

Non-plan Expenditure

191. Non-Plan expenditure in 2003-2004 is estimated to be Rs.317,821 crore compared to Rs.289,924 crore in Revised estimates for 2002-2003. The increase in non-plan expenditure is mainly in interest payments (Rs.7,560 crore), subsidies (Rs.7,162 crore), and defence (Rs.9,300 crore). Government is fully committed to modernizing the armed forces, and equipping them with the best available. This is non-negotiable. Therefore, during the next year, any additional requirement that may emerge on account of modernisation needs of the three defence services, or on account of the Married Accommodation Project, will be fully met. There will be no shortage of funds for defence.

Revenue estimate and Fiscal deficit

192. Mr. Speaker, Sir, with these proposals I estimate total revenue receipts of the Centre at Rs.253,935 crore and the fiscal deficit at Rs.153,637 crore, which is 5.6 per cent of the estimated GDP.

XI. CONCLUSION

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

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

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

196. Sir, I commend the Budget to the House.

Text of Finance Minister's speech

Mr. Speaker,

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

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

II. THE CHALLENGE AND THE RESPONSE

3. At the core of our economic endeavour and management of the country's finances are the interests of our citizens; all this effort is for their total well being. That is our central objective, towards which the NDA government has a non-negotiable commitment. Through Budget 2003-2004, the Government, therefore, addresses the following five objectives, as *'Panch Priorities'*, for our citizens and for the economic security of our coun*try, though these are not listed in any hierarchial order* of importance:

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

b) infrastructure development;

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

d) agriculture and related aspects including irrigation; and

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

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

5. But neither in agriculture, nor in industry, shall we be able to attain our objective, if infrastructure, both physical and social, is not rapidly and efficiently developed. For this, private and public interest must combine so as to generate maximum social welfare. Upon these foundations, and through encouraging specific manufacturing sectors, particularly activities where knowledge is industry, we will enhance growth, improve incomes, generate employment and promote exports. For our growth to be sustained, fiscal consolidation is the basis; it is the central pillar. Government has to totally eliminate budgetary drags, and be rid of the self-laid traps; they retard both the pace and the robustness of our growth. What is needed is a continuous and self-reliant progression of accelerating, all round growth, *with a wider distributive spread of national wealth and* greater spending power in the hands of all our citizens. We have to recognise the need to address a reduction of not just our social but economic inequalities, too. This cannot be postponed. That is why reforms are so critical. And, our reform agenda must not be held hostage; either to yesterday's debates, or to subjective and selective interpretations of it. This is a collective need, for the nation's growth, which all of us have to address together.

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

III. THE BACKDROP

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

Geo-politics

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

Macroeconomic circumstances

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

Economic performance: 2002-03

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

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

The Tenth Five-year Plan

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

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

IV. ANTYODAYA AND LIFE-TIME CONCERNS

Antyodaya Anna Yojana

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

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

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

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

Life-time concerns

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

Housing

19. *Of these, I take housing first. It is a basic necessity.* While promoting the all important employment-generating activity of construction, it also stimulates demand for core industries like steel and cement. *To maintain its* present momentum of growth, it is proposed that interest deductible under income tax up to Rs.1,50,000, for construction or purchase of a self-occupied house property, be continued. In addition, it is proposed that income from housing projects for construction of residential units, of prescribed specification, approved by the local authorities up to March 31, 2005, will now be exempt from income tax. Thus, not only has the limitation with regard to the year of sanction, earlier frozen *at March 31, 2001, now been extended*, but the benefits of the scheme also made available irrespective of the year of completion. The Finance Ministry is further *examining what additional incentives can be given to* basic infrastructural developments that must accompany slum upgradation, sewerage system laying and green-field housing projects.

Education

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

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

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

Games and sports

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

Health

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

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

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

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

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

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

Health insurance

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

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

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

Disabled and handicapped

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

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

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

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

The salaried

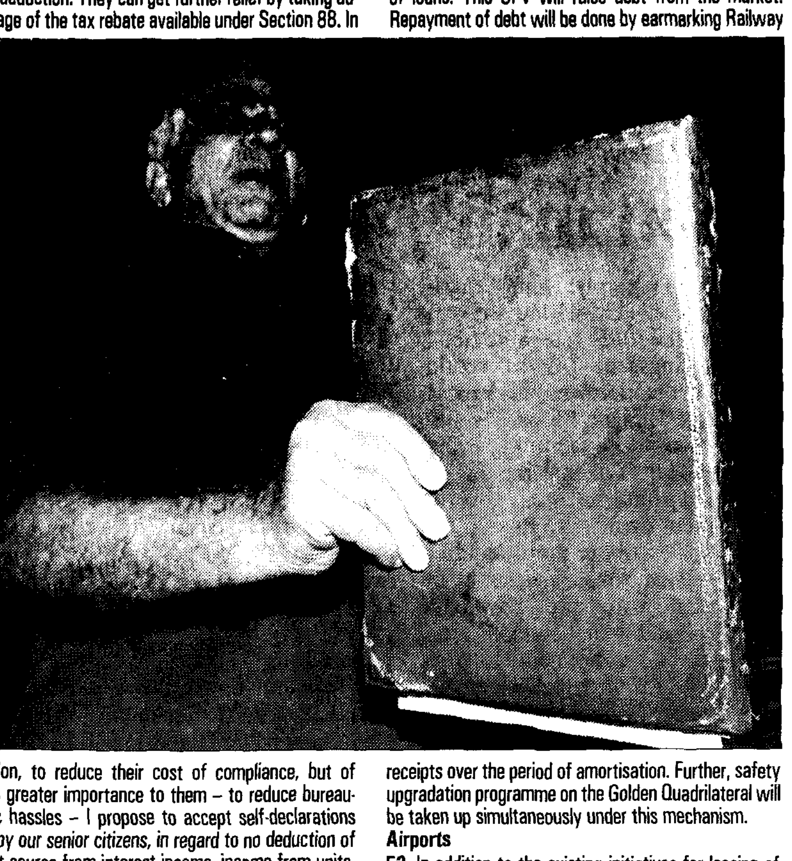
37. A constant refrain of the salaried has been limited standard deduction for income tax purposes. It is asserted that as a group they consistently demonstrate the best tax compliance. I agree, they do. It is, therefore, proposed that the standard deduction for such employees be raised to 40 per cent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

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

Senior citizens and pensioners

39. India will shortly become home to the second largest number of elderly persons in the world. The population of our elderly, at present estimated at 76 million, is expected to increase to 100 million in 2013. The interests of the pensioners and senior citizens are, therefore, a particular responsibility of the NDA Government.

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



Insurance pension scheme

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

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

Ex-servicemen: our veterans

43. For ex-servicemen, whose welfare is so close to my heart, I propose to grant income tax exemption to corporations set up under a Central or State Act for their benefit. It is a matter of great personal satisfaction to me, that of the Prime Minister's scheme for establishing 227 ex-servicemen medical (XSM) facilities in the country, the first will be inaugurated in April this year. The Ministry of Finance fully supports this scheme.

Restructured pension scheme

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

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

V. PHYSICAL INFRASTRUCTURE

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

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

48. Accordingly, Budget 2003-04 undertakes to provide a major thrust to infrastructure, principally to roads, railways, airports, and seaports, through innovative funding mechanisms. This comprehensive initiative will cover the following:

- 48 new **road projects** at an estimated cost of around Rs.40,000 crore; with a quarter of them being made of cement concrete;
- **National Rail Vikas Yojana** projects worth Rs.8,000 crore;
- **Renovation/modernisation of two airports, and two seaports** at an estimated cost of Rs.11,000 crore; and
- *establishing* **two global standard international convention centres at an estimated cost of Rs.1,000 crore.**

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

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

Roads

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

National Rail Vikas Yojana

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

Airports

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

Seaports

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

Convention Centres

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

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

Rural roads

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

Power

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

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

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

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

Drinking Water

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

VI. FISCAL CONSOLIDATION AND DEBT RESTRUCTURING

63. Mr. Speaker, Sir, I have already said that for our *growth to be sustained fiscal consolidation is essential.* The Government has nurtured macroeconomic stability – held inflation low, and maintained a strong balance of payments position – *while promoting growth. It has* done so not only in the face of an unprecedented drought, but also in a global economy where growth is 'tepid', uncertainty great, and oil prices high. We have carefully balanced the need for fiscal consolidation with *the need for a contra-cyclical policy stance. Simul*taneously, as I said, Government is committed to totally eliminating budgetary drags, be rid of the self-laid traps; and go forward with fiscal consolidation through revenue enhancement under a modern tax administration, *and expenditure rationalisation.*

Cash Management

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

External debt prepayment

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

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

Domestic debt of the Central Government

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

State Governments' debt

68. Third, is the restructuring of State Governments' debt. Mr. Speaker, Sir, the XII Finance Commission will also be making an assessment of the debt position of the States and suggest such corrective measures as are necessary. Meanwhile, the Central Government and the State governments have mutually agreed to introduce a debt-swap scheme. Out of the total stock of debt of Rs 2,44,000 crore owed by the States to the Government of India, a little over Rs1,00,000 crore bear coupon rates in excess of 13 per cent per annum, a rate that is far in excess of the current market rates. In consequence the interest burden of the States now constitutes a major item of expenditure for them; leaving little for even routine purposes.

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

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

VII. AGRICULTURE

71. Agriculture, the life-blood of our economy, after giving the country adequate food security, is now again at the cross roads, as it prepares to diversify and move up the value chain. It also needs to respond robustly to second generation issues such as land degradation and water logging. Diversification, resonance with market-forces, and a swift adoption of sunrise technologies are the other needs.

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

Diversification into horticulture, floriculture, etc.

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

Sugar

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

Plantations

75. Our plantation sector, a hundred and fifty year old agro-industry, is passing through a rough patch, because of price instability in international markets. The Government has already introduced a series of measures to provide relief to small and marginal farmers of plantation crops like tea, coffee and rubber, and help *these sectors negotiate the difficult period.*

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

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

Animal husbandry and veterinary medicine

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

Credit availability

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

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

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

Fertiliser subsidy

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

Water management and irrigation

Drip irrigation

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

River-interlinking

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

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

Desert pasturage development

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

VIII. INDUSTRY

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

Promoting investment: tax treatment of dividends and capital gains

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

Dividend distribution tax

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

Long-term capital gains tax

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

Stock markets

HIGH FISCAL DEFICIT OF 5.6%, BOOST FOR INFRASTRUCTURE IN JASWANT SINGH'S MAIDEN BUDGET

People first, growth second, Kelkar last

ज्ञ. शिव अग्र
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Statesman News Service

NEW DELHI, Feb. 28. — Presenting a Budget that he clearly hopes will be popular but his advisers argue is not populist, Mr Jaswant Singh today put "growth" and "people" firmly in his focus; Kelkar and deficits got the short shrift.

The growth strategy is principally centred around a massive outlay on building infrastructure, Rs 60,000 on the transport sector alone. In the process the minister has left a huge uncovered deficit of Rs 153,637 crore, or 5.6 per cent of GDP.

While bringing in a host of popular and some innovative measures, he took a tough decision to bring down the interest rate on the Public Provident Fund (PPF) and small savings, by one per cent. But he balanced it by giving senior citizens and pensioners, most likely to be hit by the reduced interest from the PPF, a higher limit of tax exemption to Rs 1.53 lakh. After the Budget, labour minister Dr Sahib Singh Verma tried to allay fears of employees by airing his confidence in holding the 9.5 per cent interest rate of the employees provident fund in the next fiscal. He said the EPF board members "are sure we will be able to continue to give the present rate of interest to EPF account holders even after an assessment meeting of the EPF board in March to discuss interest rates on invested funds".

Households with children in school get an incentive — a substantial tax rebate (of Rs 12,000 per child) to salaried people on the sum spent on their education for couples with not more than two children.

Mr Singh courted popularity with considerable finesse. No class or interest group was showered with goodies. But there were some for most, and a few hard decisions woven in.

As expected, he did not make any change in the basic income and corporate tax rates but removed the five per cent surcharge (imposed for the 'security of India' last year) on personal income tax and halved it for corporates.

There was a new surcharge of 10 per cent for incomes above Rs 8.5 lakh annually, a measure that he sold as egalitarian but makes for small increases in tax burden for those with incomes just above the new slab. The standard deduction limit for salaried people was raised to Rs 30,000 or 40 per cent of their income (whichever is less).

Since the minister ignored Kelkar committee recommendations on phasing out tax exemptions on savings and housing — in fact he increased exemption limit for dividend income — he also did not raise the ex-

Turn to page 5

Budget Highlights 2003~04

PRICES UP

- Petrol
- Diesel
- Mobile spirit
- Branded refined edible oil
- Vanaspati
- Cement
- Urea
- Agro-based fibres

AFTERSHOCKS

- RBI on Friday slashed interest rates on savings accounts and the repurchase rate by 0.5%. Revised rate on savings accounts is now 3.5 per cent p.a. with effect from Saturday. The repurchase rate after the 0.5% cut stands at 5% with effect from Monday
- The price of petrol and diesel will go up by Rs 1.50 per litre effective Friday midnight

- No change in income tax and corporate tax rates
- Standard deduction for salaried employees with income upto Rs 5 lakh raised to 40% of salary or Rs 30,000, whichever is lower. Standard deduction of Rs 20,000 for those with incomes above Rs 5 lakh
- Interest on PPF and small savings schemes reduced by 1%
- Peak customs duties down from 30% to 25%
- 5% security surcharge on personal I-T goes, half for others
- 10% surcharge on income over Rs 8.5 lakh p.a.
- LIC to launch monthly pension policy for senior citizens aged above 55 years with assured return of 9% pa
- Re 1 a day premium for group health insurance
- Dividends made tax-free in hands of shareholders, but companies to be taxed
- Upto Rs 12,000 p.a. on each child spent on education of children deductible from taxable income for couples with upto two kids
- LTC to government employees restored after a two-year freeze
- Tax sops on home loans to stay
- Service tax up to 8%

PRICES DOWN

- Gold
- Air-conditioners
- Cars
- Garments & fabrics
- Foreign liquor
- Toys
- Umbrellas
- Pre-recorded CDs
- Kitchenware
- Pressure-cookers
- Biscuits
- Spectacles
- Aerated drinks
- Boiled sweets
- Bicycles
- Tyres
- Mosaic tiles
- Handmade matches

Infographic: Arindam

TAXMAN GIVETH!

If you're not too rich

Total Income (p.a.)	Existing Tax Liability (p.a.)	New Tax Liability	Additional Liability
50,000	NIL	NIL	NIL
75,000	4,200	4,000	-200
1,50,000	19,950	19,000	-950
3,00,000	67,700	64,000	-3200
5,00,000	1,30,200	1,24,000	-6200
850,000	240,450	229,000	+11,450
1,000,000	287,700	301,400	+13,700
2,500,000	760,200	796,400	+36,200

Bourses Unruffled

BSE SENSEX		S&P CNX NIFTY	
Opening	3294.80	Opening	1053.85
Closing	3283.66	Closing	1063.40

Substantive style

There was no Part 'A' and Part 'B' in the Budget speech. Mr Jaswant Singh mixed his proposals on the basis of priority, sticking to no fixed norm. Finance ministers add only a few personal touches to the Budget speech, most of which are written by their officials. Mr Singh, however, laboured on the speech himself, placing his "personal stamp" of "integral humanism" on Budget 2003-'04.

He seemed to enjoy every moment of the 33-page speech, savouring the comments and once even giving way for comments from members, unlike his predecessor Mr Yashwant Sinha. — SNS

TEXT OF FINANCE MINISTER'S SPEECH: PAGES 6-7
See also Pages 10 & 11

1 MAR 2003

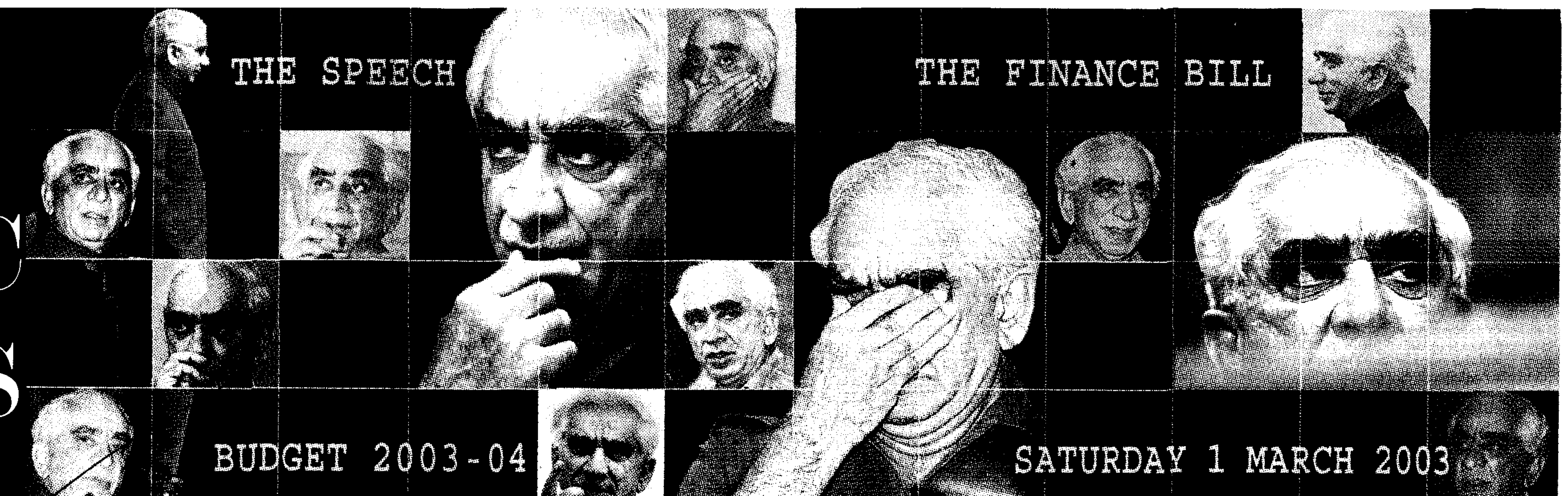
THE STATESMAN

THE ECONOMIC TIMES

THE SPEECH THE FINANCE BILL

BUDGET 2003-04 SATURDAY 1 MARCH 2003

AHMEDABAD BANGALORE CHANDIGARH CHENNAI HYDERABAD KOCHI KOLKATA MUMBAI NEW DELHI PUNE



It's Party Time, All Are Invited

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

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

II THE CHALLENGE AND THE RESPONSE

3. At the core of our economic endeavour and management of the country's finances are the interests of our citizens; all this effort is for their total well being. That is our central objective, towards which the NDA government has a non-negotiable commitment. Through Budget 2003-2004, the Government, therefore, addresses the following five objectives, as 'Panch Priorities', for our citizens and for the economic security of our country, though these are not listed in any hierarchial order of importance:

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

b) infrastructure development;

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

d) agriculture and related aspects including irrigation; and

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

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

5. But neither in agriculture, nor in industry, shall we be able to attain our objective, if infrastructure, both physical and social, is not rapidly and efficiently developed. For this, private and public interest must combine so as to generate maximum social welfare. Upon these foundations, and through encouraging specific manufacturing sectors, particularly activities where knowledge is industry, we will enhance growth, improve incomes, generate employment and promote exports. For our growth to be sustained, fiscal consolidation is the basis; it is the central pillar. Government has to totally eliminate budgetary drags, and be rid of the self-laid traps; they retard both the pace and the robustness of our growth. What is needed is a continuous and self-reliant progression of accelerating, all round growth, with a wider distributive spread of national wealth and greater spending power in the hands of all our citizens. We have to recognise the need to address a reduction of not just our social but economic inequalities, too. This cannot be postponed. That is why reforms are so critical. And, our reform agenda must not be held hostage; either to yesterday's debates, or to subjective and selective interpretations of it. This is a collective need, for the nation's growth, which all of us have to address together.

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

III THE BACKDROP

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

Geo-politics

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

Macroeconomic circumstances

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

Economic performance: 2002-03

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

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

The Tenth Five-year Plan

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

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

IV ANTYODAYA AND LIFE-TIME CONCERNS

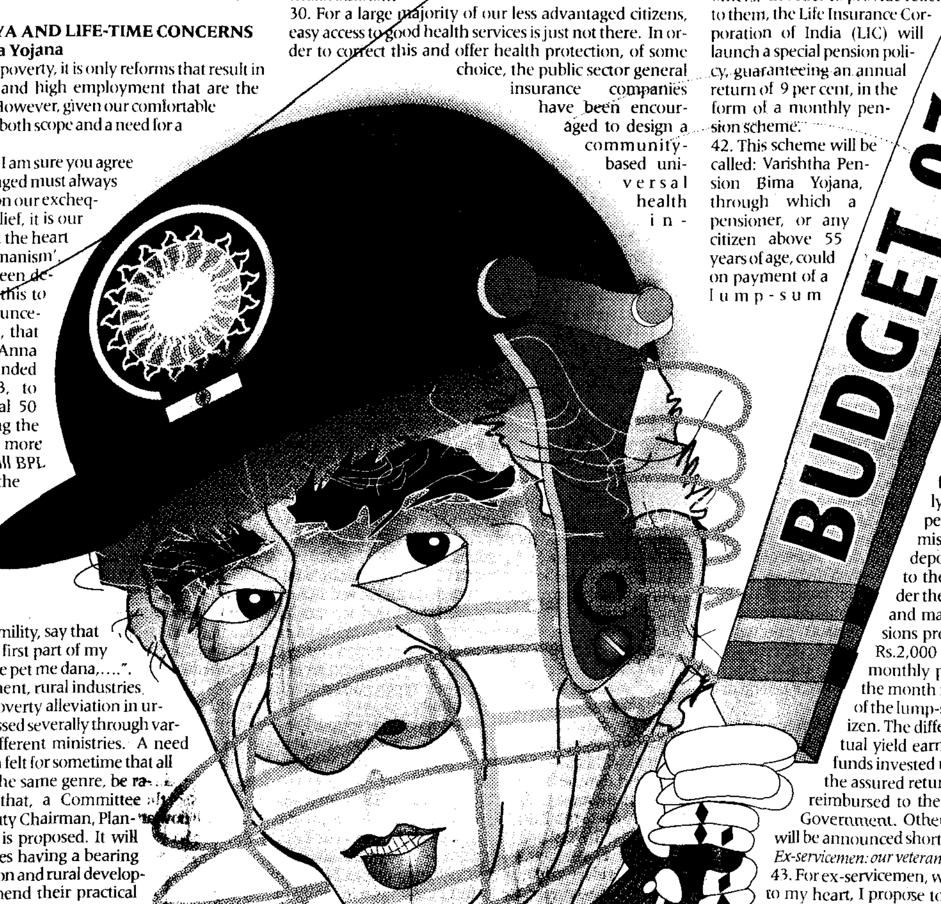
Antyodaya Anna Yojana

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

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

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

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



Life-time concerns

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

Housing

19. Of these, I take housing first. It is a basic necessity. While promoting the all important employment-generating activity of construction, it also stimulates demand for core industries like steel and cement. To maintain its present momentum of growth, it is proposed that interest deductible under income tax up to Rs.1,50,000, for construction or purchase of a self-occupied house property, be continued. In addition, it is proposed that income from housing projects for construction of residential units, of prescribed specification, approved by the local authorities up to March 31, 2005, will now be exempt from income tax. Thus, not only has the limitation with regard to the year of sanction, earlier frozen at March 31, 2001, now been extended, but the benefits of the scheme also made available irrespective of the year of completion. The Finance Ministry is further examining what additional incentives can be given to basic infrastructural developments that must accompany slum upgradation, sewerage system laying and green-field housing projects.

Education

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

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

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

Games and sports

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

Health

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

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

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

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

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

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

Health insurance

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

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

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

Disabled and handicapped

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

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

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

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

The salaried

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

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

Senior citizens and pensioners

39. India will shortly become home to the second largest number of elderly persons in the world. The population of our elderly, at present estimated at 76 million, is expected to increase to 100 million in 2013. The interests of the pensioners and senior citizens are, therefore, a particular responsibility of the NDA Government.

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

Insurance pension scheme

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

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

Ex-servicemen: our veterans

43. For ex-servicemen, whose welfare is so close to my heart, I propose to grant income tax exemption to corporations set up under a Central or State Act for their benefit. It is a matter of great personal satisfaction to me, that of the Prime Minister's scheme for establishing 227 ex-servicemen medical (XSM) facilities in the country, the first will be inaugurated in April this year. The Ministry of Finance fully supports this scheme.

Restructured pension scheme

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

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

V PHYSICAL INFRASTRUCTURE

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

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

48. Accordingly, Budget 2003-04 undertakes to provide a major thrust to infrastructure, principally to roads, railways, airports, and seaports, through innovative funding mechanisms. This comprehensive initiative will cover the following:

- 48 new road projects at an estimated cost of around Rs.40,000 crore; with a quarter of them being made of cement concrete;
- National Rail Vikas Yojana projects worth Rs.8,000 crore;
- Renovation/modernisation of two airports, and two seaports at an estimated cost of Rs.11,000 crore; and
- establishing two global standard international convention centres at an estimated cost of Rs.1,000 crore.

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

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

Roads

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

National Rail Vikas Yojana

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

Airports

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

Seaports

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

Convention Centres

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

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

Rural roads

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

Power

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

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

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

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

Drinking Water

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

VI FISCAL CONSOLIDATION AND DEBT RESTRUCTURING

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

Cash Management

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

External debt prepayment

65. At the Central level, interest payments in 2002-03 are estimated at Rs.1,15,663 crore, equivalent to 48.8 per cent of the Government's revenue receipts. The average interest rate on Government of India's outstanding debt has come down from 11 per cent in 1999-2000 to 9.4 per cent in 2001-02. But, Mr. Speaker, because of the legacy of high cost debt from the past, this reduction in the interest cost is not enough; it does not keep pace with the decline in the market rates of interest. The Government has, therefore, already started to act on three fronts.

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

Domestic debt of the Central Government

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

State Governments' debt

68. Third, is the restructuring of State Governments' debt. Mr Speaker, Sir, the XII Finance Commission will also be making an assessment of the debt position of the States and suggest such corrective measures as are necessary. Meanwhile, the Central Government and the State governments have mutually agreed to introduce a debt-swap scheme. Out of the total stock of debt of Rs 2,44,000 crore owed by the States to the Government of India, a little over Rs1,00,000 crore bear coupon rates in excess of 13 per cent per annum, a rate that is far in excess of the current market rates. In consequence the interest burden of the States now constitutes a major item of expenditure for them; leaving little for even routine purposes.

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

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

VII. AGRICULTURE

71. Agriculture, the life-blood of our economy, after giving the country adequate food security, is now again at the cross roads, as it prepares to diversify and move up the value chain. It also needs to respond robustly to second generation issues such as land degradation and water logging. Diversification, resonance with market-forces, and a swift adoption of sunrise technologies are the other needs.

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

Diversification into horticulture, floriculture, etc.

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

Sugar

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

Plantations

75. Our plantation sector, a hundred and fifty year old agro-industry, is passing through a rough patch, because of price instability in international markets. The Government has already introduced a series of measures to provide relief to small and marginal farmers of plantation crops like tea, coffee and rubber, and help these sectors negotiate the difficult period.

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

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

Animal husbandry and veterinary medicine

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

Credit availability

79. Timely availability of adequate credit is of utmost importance for the development of the rural economy and agriculture. At present Regional Rural Banks, commercial banks and credit cooperatives, encouraged mainly by the Government, undertake this function. I am not satisfied with this arrangement. We can not have a system

Middle-class messiah walks the talk

Excerpts from the Budget 2003-04

I am greatly honoured to present the sixth successive budget of the government of the National Democratic Alliance, under the premiership of Shri Atal Bihari Vajpayee. At the core of our economic endeavour and management of the country's finances are the interests of our citizens; all this effort is for their total wellbeing. That is our central objective, towards which the NDA government has a non-negotiable commitment. Through budget 2003-2004, the government, therefore, addresses the following five objectives, as "Panch Priorities" for our citizens and for the economic security of our country:

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

b) infrastructure development;

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

d) agriculture and related aspects including irrigation; and

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

Antyodaya Anna Yojana

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

It has been decided that the Antyodaya Anna Yojana will be expanded from April 1, 2003, to cover an additional 50 lakh families, raising the total coverage to more than a quarter of all BPL families during the year 2003-04. The additional budgetary expenditure on this account will be Rs 507 crore. This does cover the first part of my assurance: *Garib ke pet mein dana.*

Housing

To maintain its present momentum of growth, it is proposed that interest deductible under income tax up to Rs 1,50,000 for construction or purchase of a self-occupied house property be continued. In addition, it is proposed that income from housing projects for construction of residential units, of prescribed specification, approved by the local authorities up to March 31, 2005, will now be exempt from income tax. Thus, not only has the limitation with regard to the year of sanction, earlier frozen at March 31, 2001, now been extended, but the benefits of the scheme also made available irrespective of the year of completion.

Education

As a first step, education expenses up to Rs 12,000 per child for two children, will be made eligible for rebate under Section 88 of the Income Tax Act. Royalty income up to Rs 3 lakh per annum, received by authors of literary, artistic and scientific books shall henceforth be fully exempt, as will be royalty received by individuals from exploitation of patents. This is in addition to existing exemption benefits.

Health

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

It is proposed to increase the rate of depreciation from the present 25 per cent to 40 per cent in respect of life-saving medical equipment.

It is also proposed to reduce the customs duty on specified life-saving equipment from 25 per cent to 5 per cent and also exempt them from CVD (additional duty of customs). In respect of life-saving equipment already exempt from CVD, it is proposed to exempt them from excise duty as well, to encourage indigenous manufacturers. It is proposed to extend the concessional duty rate of 5 per cent to some more drugs. Life-saving drugs currently attracting nil or 5 per cent customs duty will also be exempt from excise duty.

Disabled and handicapped

It is proposed that the physically handicapped or persons with such dependants be entitled to a deduction for permanent physical disability of Rs 50,000, and an enhanced deduction of Rs 75,000 in case of severe disability.

I also propose to reduce the customs duty on hearing aids, crutches, wheelchairs, walking frames, tricycles, braillers and artificial limbs to 5 per cent without special additional duty. They will be exempt from CVD and the domestic manufacturers will also be exempt from excise duty. I also propose to reduce the customs duty on parts of hearing aids and wheelchairs to 5 per cent without CVD and SAD.

The salaried

A constant refrain of the salaried has been limited standard deduction for income tax purposes. It is, therefore, proposed that the standard deduction for such employees be raised to 40 per cent of salary, or Rs 30,000, whichever is less, for salary income up to Rs 5 lakh, and allow a deduction of Rs 20,000 for salary income above Rs 5 lakh. It is also proposed that relief be provided to employees opting for VRS, by exempting VRS payments up to Rs 5 lakh, even when taken in instalments. The government will restore the LTC facility to its employees.

Senior citizens, pensioners

To enable pensioners and senior citizens to live their life of retirement in dignity, the tax rebate to senior citizens is proposed to be increased to Rs 20,000. As a result, their income up to Rs 1.53 lakh will, henceforth, become fully exempt from income tax.

In the case of senior citizens on pension, the effective exemption limit may hereafter be actually higher and become Rs 1.83 lakh, because of standard deduction. They can get further relief by taking advantage of the tax rebate available under Section 88. In addition, to reduce their cost of compliance, but of much greater importance to them — to reduce bureaucratic hassles — I propose to accept self-declarations filed by senior citizens, in regard to no deduction of tax at source from interest income, income from units, and such other sources.

In the context of the declining rates of interest, the Life Insurance Corporation of India will launch a special pension policy, guaranteeing an annual return of 9 per cent, in the form of a monthly pension scheme. This scheme will be called Varishtha Pension Bima Yojana. For this scheme, and with pensions in mind, any citizen above the age of 55 years will qualify and will get a monthly return in the form of a pension for life. Upon demise, the initial amount deposited will be returned to the spouse/nominee. The minimum and maximum monthly pensions proposed are Rs 250 and Rs 2,000 per month and will start from the month following the payment of the lump-sum amount.

Ex-servicemen

For ex-servicemen I propose to grant income-tax exemption to corporations set up under a Central or state Act for their benefit. The Prime Minister's scheme for establishing 227 ex-servicemen medical facilities in the country will be inaugurated in April this year.

Restructured pension

A restructured pension scheme for new central government employees and a scheme for the general public is now ready. It will apply only to new entrants to government service, except to the armed forces, and upon finalisation, offer a basket of pension choices. It will also be available, on a voluntary basis, to all employers for their employees, as well as to the self-employed. This system will be based on defined contribution, shared equally in the case of government employees between the government and the employees. There will, of course, be no contribution from the government in respect of individuals who are not government employees. The new pension scheme will be portable.

Physical infrastructure

Budget 2003-04 undertakes to provide a major thrust to infrastructure, principally to roads, railways, airports, and seaports, through innovative funding mechanisms. This comprehensive initiative will cover:

- 48 new road projects at an estimated cost of around Rs.40,000 crore
- National Rail Vikas Yojana projects worth Rs.8,000 crore;
- Renovation/modernisation of two airports, and two seaports at an estimated cost of Rs.11,000 crore; and
- establishing two global standard international convention centres at an estimated cost of Rs 1,000 crore

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

The government now proposes to liberalise the mega power project policy further by extending all these benefits to any power project that fulfils the conditions already prescribed for mega power projects.

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

Fiscal consolidation

The government proposes to initiate cash management, on a pilot basis, in some major spending ministries, releasing budgetary allocations in a time-sliced manner to permit convergence with available resources within the year.

At the Central level, interest payments in 2002-03 are estimated at Rs 115,663 crore, equivalent to 48.8 per cent of the government's revenue receipts. The government has, therefore, already started to act on three fronts.

First, the government has effected premature repayment of "high-cost" currency pool loans of the World Bank and the Asian Development Bank totalling around $3 billion. We intend to continue with this policy of prudently managing the external liabilities and of proactively liquidating relatively higher cost component of our external debt portfolio.

Second, the government now proposes to offer a buy back of high-interest loans from banks that are in need of liquidity, or of encashing the premium for making provisions for their non-performing assets

Third, the central and state governments have agreed to introduce a debt-swap scheme which will enable states to prepay high-cost debt and substitute them by current, low-coupon-bearing small savings and open market loans.

Agriculture

To provide relief to both the (sugarcane) farmers and industry, the RBI has already issued instructions to Co-operative Banks for the conversion of shortfall in margins into medium-term working capital loans. The RBI has also issued instructions to extend *the repayment period of medium-*term loans to 9 years. I propose to abolish the excise duty of Re 1 per kg on tea and replace it by a cess of Re1 per kg., for creating a separate fund for development, modernisation and rehabilitation of the tea plantation sector. Further, coffee plantations will henceforth be eligible for income tax deduction of sums deposited in a *development account, as in the case of* tea.

I propose to reduce the basic customs duty on specified veterinary drugs from 15 per cent to 10 per *cent. Private banks will be encour*aged to open branches in rural areas. To pass on the benefits of lower rates of interest to agriculture and the SSI sector, the State Bank of India has announced an interest rate band of 2 per cent above and below its prime lending rate for secured advances. The issue price of fertilisers will be raised by a modest amount of Rs 12 for urea, and Rs 10 for DAP and MOP, per 50 kg bag. The price of complex fertilisers will also be suitably modified.

Industry

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

It is also proposed to exempt all listed equities that are acquired on or after March 1, 2003, and sold after the lapse of a year, or more, from the incidence of capital gains tax.

As a one time measure, at the time of corporatisation or demutualisation of the stock exchanges should gains arise, then the consequential transactions shall be fully exempt from capital gains tax.

The main thrust of my proposals for the textile sector, therefore, is to have a moderate rate structure; to complete the Cenvat chain to promote compliance; to encourage modernisation; and, to eliminate evasion. Recognising the need to prevent sickness in the textile industry, the government is considering a mechanism for restructuring the debt portfolios of viable and potentially viable textile units.

All drugs and materials imported or produced domestically for clinical trials will be exempt from customs and excise duties. Customs duty on import of reference standards by the industry has been reduced from 25 per cent to 5 per cent.

It is proposed that the concessions *extended to IT under Sections 10A and* 10B of the Income Tax Act will continue as originally envisaged. As per law, such companies as are currently covered by these tax exemptions lose the *benefits upon change in their owner*ship or shareholding. I am removing these restrictions. The value of pre-loaded software will be excluded for the purpose of charging excise duty *on computers*. Customs duty on specified electronic components for IT industry is being reduced.

In addition, customs duty on a number of capital goods used by the *telecom and IT sector for manufac*ture of components will be reduced to 15 per cent. For optical fibre cables the customs duty is also being reduced to 20 per cent.

It is proposed to reduce customs duty on imported gold to Rs 100 per 10 grams from the present Rs 250 per 10 grams, but only when it is brought in the form of serially-numbered bars, or in the form of gold coins

Banking

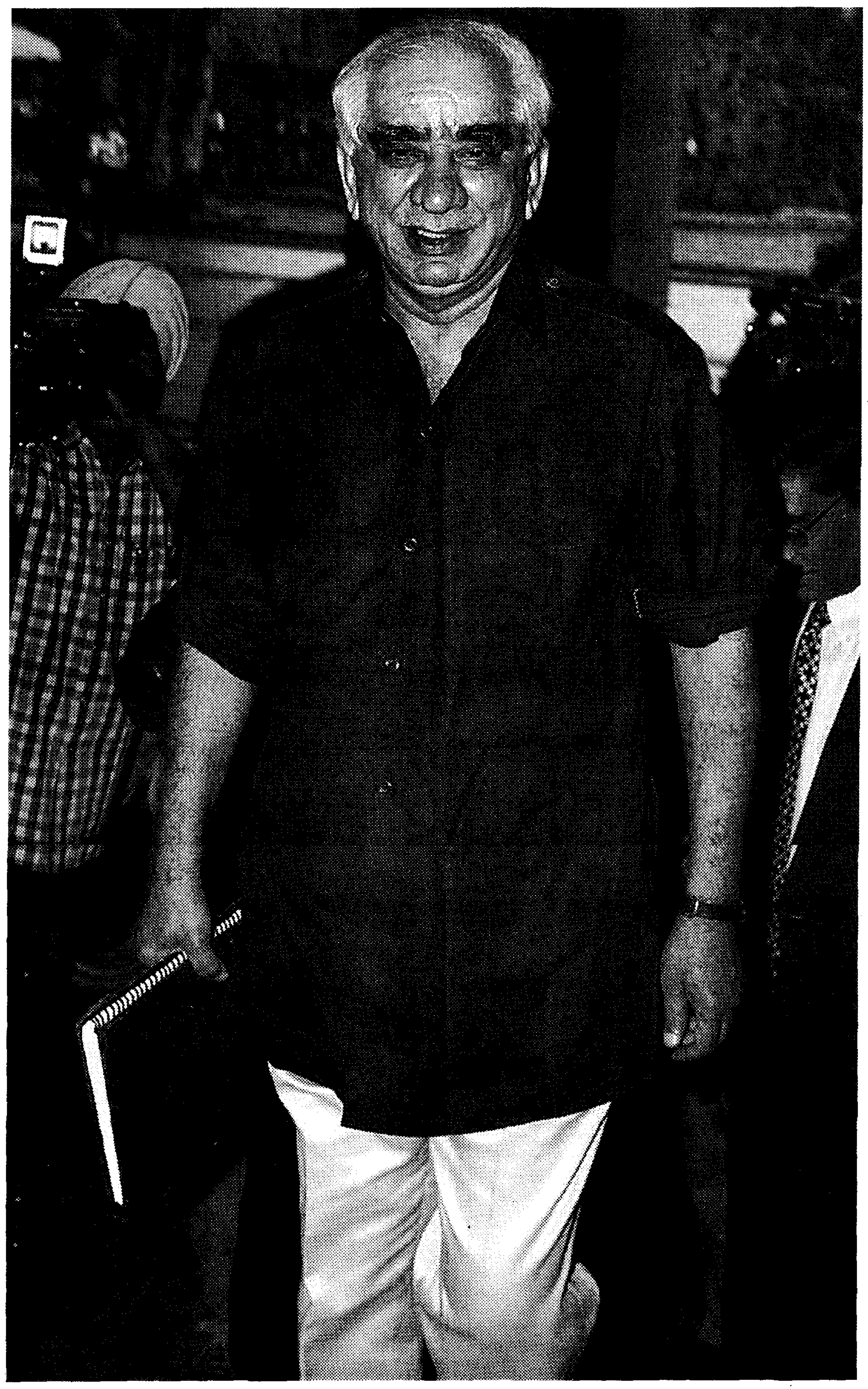
Foreign direct investment in the banking companies in India from all sources under the automatic route will be raised to 74 per cent.

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

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

Interest rate

Rates of interest on public provident fund, and small savings schemes, will be reduced by one percentage point with effect from March 1. Interest on relief and savings bonds will also be reset accordingly.



Finance minister Jaswant Singh arrives in Parliament on Friday to present the budget. (AFP)

Capital account

To ease restrictions on capital account mobility I would like to announce the following additional steps:

- To enable diversification, overseas investment under the automatic route will be permitted to corporates with a proven track record, even where the investment is not in the same core activity. Further, the current restriction, limiting such investment to 50 per *cent of the net worth of the Indian* company, will now be raised to 100 per cent.
- Prepayment of ECB dues under the automatic route will be permitted by removing the current ceiling of $100 million.

Tax reform

In view of the apprehensions expressed by states about possible revenue loss in the initial years of introduction of VAT, the central government has agreed to compensate 100 per cent of the loss in the first year, 75 *per cent of the loss in second year and* 50 per cent of the loss in the third year of the introduction of VAT.

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

To enable levy of tax on services as a specific and important source of revenue, an amendment to the Constitution is proposed.

With the introduction of VAT, there is need to now phase out the CST and move to a completely destination-based system. This cannot be done in one step. We must let VAT stabilise; but also recognise that these two — VAT and CST — cannot remain in tandem, in perpetuity.

Direct taxes

Corporate tax structure will be left as it is; except that the 5 per cent surcharge, levied last year in connection with the security of India, will be halved in the case of corporate assessees, firms, foreign companies, co-operatives, and local authorities.

In the case of individuals, Hindu undivided families and association of persons, this surcharge will be removed entirely, except in the case of those earning an income above Rs 8.5 lakh. From them, that is those earning above Rs 8.5 lakh, I will collect a 10 per cent surcharge on the tax, which works out to less than 3 paise out of an income of a rupee. But, I have provided some relief to them, as well, for example, in standard deduction.

Individual taxpayers having income from dividends, interest have now been given a general deduction of Rs 12,000. An additional deduction of Rs 3,000 is allowable in respect of interest from government securities.

It is now provided that individuals and HUF carrying on business or profession need not deduct tax at source from payments made by them for personal purposes.

In the area of tax administration, the government has initiated a whole basket of reforms, mainly on the basis *of the recommendations of the* Kelkar Committee:

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

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

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

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

e) reduce the compliance cost of the taxpayer, through halving the number of forms presently used in furnishing of applications, returns, for the purposes of tax deduction and tax collection at source, from the present 42 to just 22.

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

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

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

i) simplifying the procedure and methods employed during search and seizure, and during survey by the Income Tax department.

Indirect taxes

I propose to prescribe a three-tier excise duty structure of 8 per cent, 16 per cent and 24 per cent. These rates would, however, not apply in the case *of petroleum and tobacco products, pan masala*, and items attracting specific duty rates.

Currently, tyres, aerated soft drinks, polyester filament yarn, air-conditioners and motor cars attract excise duty of 32 per cent. I propose to reduce the duty on these items to 24 per cent. Certain exempt items were brought under the tax net during the last two years with an optional duty of 4 per cent without Cenvat, or 16 per cent with Cenvat. I propose to eliminate the 4 per cent duty without Cenvat.

*I propose to fully exempt the fol*lowing items of the ordinary citizen's use, currently attracting 4 per cent excise duty— unbranded surgical bandages, registers and account books, umbrellas, kerosene pressure lanterns, articles of wood, imitation zari, adhesive tapes, tubular knitted gas mantle fabrics, walking sticks, articles of mica, bicycles and parts, toys, mosaic tiles, utensils and kitchen articles, knives, spoons and similar kitchenware/tableware, glasses for corrective spectacles.

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

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

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

These measures will result in *Grihini ki kutiya mein anna*: the second part of my assurance.

I have already announced major reduction in excise duty on motor cars and tyres. Further, I propose to reduce the duty on electric vehicles from 16 per cent to 8 per cent.

To reduce the duty differential between buses and trucks and to promote body building by integrated bus and truck manufacturers, as a measure of road safety, I propose to increase the duty on chassis from 16 per cent, to 16 per cent plus Rs 10,000 per chassis, cleared for outside body building. The body building activity in the unorganised sector would, however, continue to remain exempt.

I propose to impose fresh excise levy of 8 per cent on the following items, with the Cenvat credit facility available to them: branded refined edible oil and vanaspati packed in sealed containers for retail sale — this will not apply to unbranded oil; lay flat tubing; chemical reagents; wood-free particle or fibre board made from agro base; paper and paper board made from non conventional raw material; and populated printed circuit board for black and white TV sets.

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

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

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

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

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

c) I propose to extend the MRP-based excise levy to chewing tobacco and insecticides.

I propose to enhance the general service tax rate from 5 per cent to 8 per cent, and also impose service tax on 10 new services.

I propose to reduce the peak rate of customs duty from 30 per cent to 25 per cent, excluding agriculture and dairy products.

Value limit for a full customs duty exemption, for bona fide commercial samples and gifts, however, shall be raised from Rs.5,000 to Rs.10,000. I also propose to reduce the customs duty on passenger baggage from 60 per cent to 50 per cent.

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

Capital goods

Considering higher usage levels of liquified natural gas, I propose to reduce the customs duty on LNG regassification plants from 25 per cent to 5 per cent.

I propose to reduce customs duty on spares for diesel locomotives, parts for conversion of locomotives from DC to AC from 25 per cent to 15 per cent, and loco simulators for training of drivers from 25 per cent to 5 per cent.

Budget estimates 2003-04

The total expenditure is estimated at Rs 438,795 crore, of which Rs 120,974 crore is for Plan and Rs 317,821 crore for non-Plan.

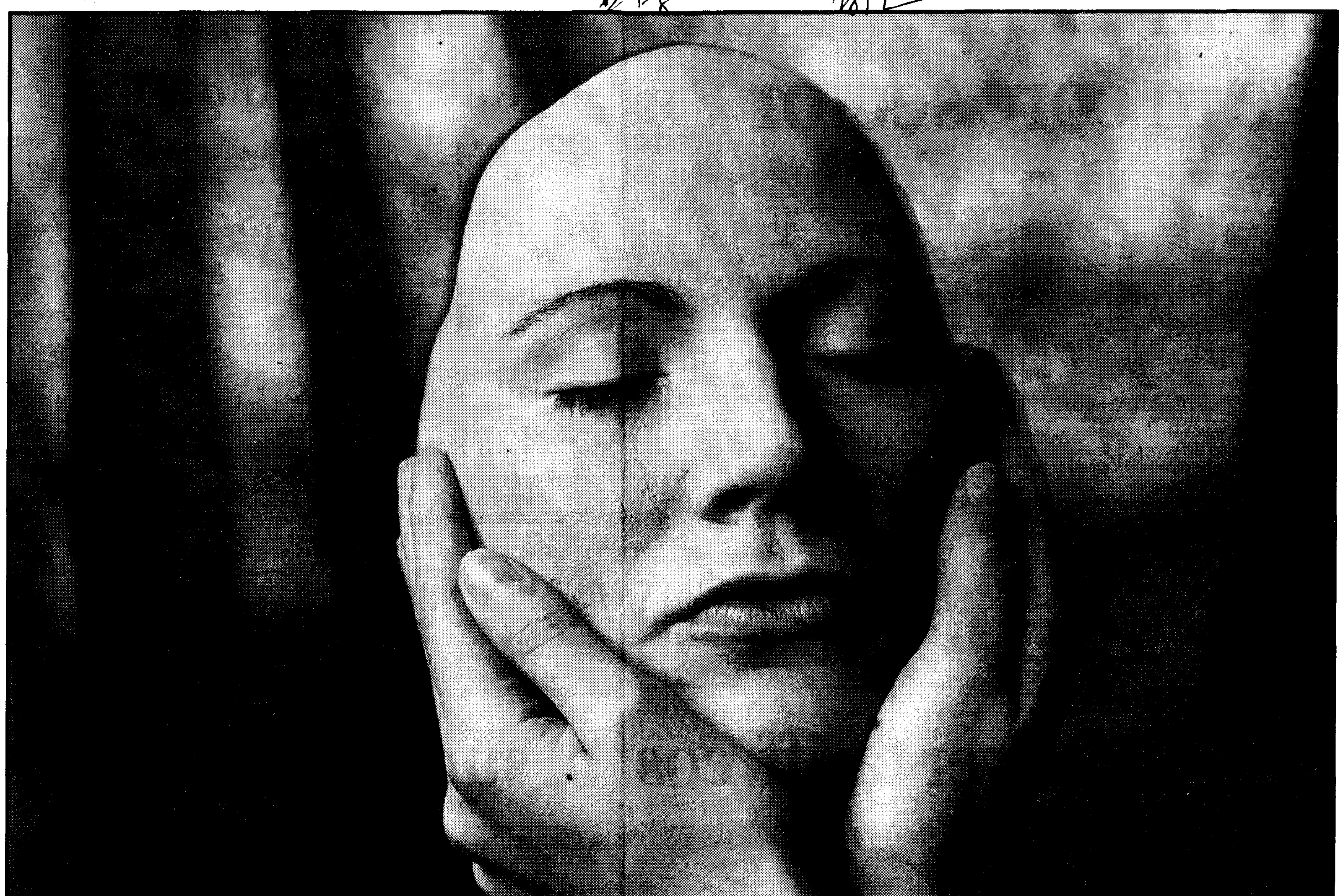
With these proposals I estimate total revenue receipts of the Centre at Rs 253,935 crore and the fiscal deficit at Rs 153,637 crore, which is 5.6 per cent of the estimated GDP.

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

Sir, I commend the budget to the House.

Key to growth: Fiscal consolidation, tax reforms

EXCERPTS FROM THE ECONOMIC SURVEY



IF ONLY WE COULD PUT A PRETTY FACE ON IT

MACROECONOMIC OVERVIEW

ACCORDING to data for 2001-02, released by the Central Statistical Organisation (CSO) on January 31, 2003, Gross Domestic Product (GDP) at factor cost at constant 1993-94 prices grew at 5.6 percent in 2001-02, as against 5.4 percent projected in February 2002. The higher growth estimate for 2001-02 is particularly significant as it comes against the backdrop of a revised estimate of a more moderate growth deceleration for 2000-01 than originally apprehended. In 2000-01, GDP at factor cost at constant 1993-94 prices grew at 4.4 percent, as against the previous estimate of 4.0 percent.

The pick-up in growth of the Indian economy observed in 2001-02 was stronger than what had been initially anticipated. Data on quarterly GDP at factor cost at constant 1993-94 prices, available only for the first half of 2002-03, indicated that in the first and second quarters of the current year, year on year, GDP grew by 6 percent and 5.8 percent — rates that are markedly higher than 3.5 percent and 5.3 percent respectively, registered in the corresponding periods of the previous year.

The monsoon failure, however, affected agriculture severely, with agriculture and allied GDP declining by 3.1 percent, as per the advance estimates released by the CSO on February 7, 2003. Overall GDP growth in the current year is likely to be only 4.4 percent. This agriculture-pulled deceleration in growth, in 2002-03, clouds an across-the-board improvement in the growth performance of industry and services from 3.3 percent to 6.1 percent, and from 6.8 percent to 7.1 percent, respectively, between 2001-02 and 2002-03.

Indications are that, inspite of a severe monsoon deficiency, the rebound in growth observed since 2001-02 gained momentum in industry and services sectors in the current year.

The continued growth recovery in the first half of the current year is significant in view of the several downside risks prevailing in the international and domestic economy. The outlook of recovery in global economic activity and world trade has remained subdued. International financial flows have been affected by the unsettled conditions in Latin America and Turkey. Geo-political conditions have been highly volatile with the stand-off in Iraq. Moreover, the country has been affected by a most telling monsoon deficiency in two decades.

The growth recovery was accompanied by continued macroeconomic stability in terms of low inflation, orderly currency market conditions and comfortable reserves.

In the past, droughts, with their impact on price and availability of foodgrains, have been particularly harsh on the poor. In the current year, notwithstanding the deficient monsoon, there were no shortages in availability of essential commodities, or flare-ups in their prices. The 52-week average inflation rate based on the Wholesale Price Index (WPI) was only 2.6 percent in mid January 2003.

Prices of primary products remained below 4 percent for the larger part of the year, while inflation in manufactured products was around 3 percent. The transition to a market-based pricing regime for petroleum products was also devoid of disruptions, with fuel group inflation barely touching 5 percent for much of the year. However, the latest Gulf-related uncertainty has caused fuel price inflation to touch 6.4 percent in mid-January, 2003.

Inflation, as measured by the Consumer Price Index for industrial workers (CPI-IW) declined from 4.7 percent at the beginning of 2002-03 to 3.2 percent in December 2002. The abundant stocks of wheat (28.8 million tonnes on January 1, 2003) and rice (19.4 million tonnes on January 1, 2003) held by the Food Corporation of India (FCI), while complicating the task of agricultural diversification and fiscal consolidation, did however, help to quell inflationary pulls.

In spite of volatility in **global currency markets** following the events of September 11, 2001, appropriate and timely policy interventions moderated the volatility in the exchange rate of the rupee, which moved in a range of Rs 46.56-48.85 per US dollar during 2001-02, with average depreciation against the US dollar amounting to 4.0 percent. During the current financial year, after reaching an all time high of Rs.49.06 per US dollar in May 2002, the rupee strengthened against the dollar and stood at Rs.47.80 per US dollar at the end of December 2002, thereby appreciating by 2.1 percent over the end-March 2002 level. The rupee, however, has depreciated against pound sterling, euro, and yen by 8.9 percent, 14.9 percent and 7.4 percent respectively between April 2002-January 2003, reflecting in part the weakening of the US dollar against these currencies.

FOREIGN currency assets at end-March 2002 amounted to US $51.05 billion, up by US $11.5 billion over US $39.5 billion at end-March 2001. Out of this increase, a large part (US $9.10 billion) was realised during the second half of 2001-02. Reserve accretion accelerated in the first three quarters of the current financial year, with foreign exchange reserves reaching a record high of US $73.58 billion at the end of January 2003, with an increase of US $19.47 billion over the level of end-March 2002. A recent Reserve Bank of India (RBI) study shows that the major sources of reserve accretion in the current fiscal till end-November 2002 have been a surplus in the current account, non-debt creating capital flows and valuation gains. In spite of the interest rate differential of 3-4 percent between the rates abroad and in India, there is no evidence to suggest that arbitrage through debt capital was substantial. Thus, at least upto November 2002, arbitrage may not have played a major role in accumulation of reserves. It is estimated that as much as two-thirds of the reserve accretion was on account of non-debt capital flows. Growth in foreign exchange reserves has facilitated a further relaxation of foreign exchange restrictions and a gradual move towards greater capital account convertibility.

The rapid growth in reserves was partly the result of a strong current account. After twenty-three years, the current account of India's **balance of payments** recorded a surplus — equivalent to 0.3 percent of GDP — in 2001-02. Stagnant exports and falling imports brought down the trade deficit by 0.5 percentage points in 2001-02. The current account showed a surplus mainly because of buoyant net invisible inflows equivalent to 2.9 percent of GDP, which, at US $14.05 billion, were the highest in the last decade. Invisibles are doing well in the current year too, primarily on account of heavy inflow of remittance. This, coupled with a sharp rise in exports, considerably enhances the possibility of recording a surplus in the current account for the second successive year. According to DGCI&S data, exports in dollar terms are currently (April-December, 2002) growing at 20.4 percent. Year-on-year exports in dollar terms grew by 34.3 percent in December, 2002. The surge in exports has occurred in spite of the sluggish pace of global economic recovery, and the slight appreciation of the rupee vis-à-vis the dollar, and has contributed to domestic industrial growth.

While **merchandise exports** have grown well in 2002-03, services exports have also been an important area of success reflected in net invisible inflows of US $14 billion in 2001-02. India's share in world commercial services trade is larger than India's share in world merchandise trade. While software exports is a well-known success story, India is now an important venue for many tasks in services such as financial accounting, call centres, processing insurance claims, and medical transcription. The future potential for growth in these areas appears to be considerable.

The strengthening of the balance of payments has impacted on the monetary sector, with **net foreign exchange assets** (NFA) of RBI emerging as an important source of reserve money. From 9.1 percent as at end-March 1991, the share of net foreign exchange assets in reserve money, which had reached 78.1 percent by the end of 2001-02, became 100.7 percent on January 24, 2003, which is close to a currency board situation. Similarly, the NFA to currency ratio increased gradually from 14.4 percent as at end-March 1991, to 105.2 percent as on March 31, 2002, and further to 127.7 percent on January 24, 2003. For liquidity management, the substantial increase in foreign exchange assets was partly neutralised by the decline in RBI's net domestic credit. In the current financial year, RBI credit to the government remained negative, and reserve money grew by 2.9 percent up to January 24, 2003, as compared with 4.7 percent in the corresponding period of last year.

THE **money multiplier** - the ratio of broad money (M3) to reserve money — which had increased from 4.3 to 4.4 in the previous year, increased further to 4.8 as on January 10, 2003. In the current financial year up to January 10, 2003, broad money grew at 9.8 percent (net of merger of ICICI and ICICI Bank) as compared with 11.2 percent in the corresponding period of last year. The year-on-year growth in M3, as on January 10, 2003, amounted to 12.8 percent (net of mergers) compared with 14.5 percent last year.

Inspite of the slower growth of money supply, the current year has been characterised by easy liquidity conditions. There are signs of a pick-up in non-food credit and a fall in interest rates, including in the yields on government securities. Upto January 10, 2003, non-food credit (net of mergers) increased by 11.4 percent, as compared with 9.1 percent in the corresponding period of last year.

A revival in industrial activity may lead to a further increase in the off-take of non-food credit. Food credit declined by 7.1 percent in the current financial year as compared to an increase of 33.0 percent in the corresponding period of last year, mainly on account of the drought, and higher off-take of food-grains in the current year. Priority sector advances of public sector banks formed 43.1 percent of net bank credit at the end of March, 2002. The corresponding percentage for private banks was 40.9 percent, higher than the prescribed target of 40 percent. However, there were shortfalls under priority sector sub-targets set for the agricultural sector. A declining trend in sanctions and disbursements by All-India Financial Institutions was observed mainly on account of a reduction in the number of project proposals seeking financial assistance, the weak financial position of IDBI and IFCI, and the spread of universal banking.

Facilitated by relatively lower inflation, **interest rates** continued to soften during the year. The RBI reduced the bank rate by 25 basis points to 6.25 percent in October 2002. At its present level, the bank rate is the lowest since 1973. The cash reserve ratio (CRR) was reduced by 50 basis points to 5.0 percent from June 1, 2002, and further to 4.75 percent from the fortnight beginning November 16, 2002. The PLR of five major commercial banks declined from 11.00-12.00 percent to 10.75-11.50 percent in the current year. A noticeable development in the current year is sub-PLR lending by commercial banks. Yields on government securities continued to maintain their downward trend. The yield on 7.4 percent 12-year government paper reached a low of 6.13 percent on December 31, 2002.

Gross **non-performing assets** (NPAs) of scheduled commercial banks increased by Rs. 7,164 crore to Rs 70,905 crore, while net NPAs increased by Rs. 3,084 crore to Rs 35,546 crore in 2000-01. The incremental gross NPAs in 2001-02, which is more than double the amount in 2000-01, is mainly on account of the inclusion of an amount of Rs.4,512 crore in gross NPAs consequent on the merger of ICICI with ICICI Bank. There was an increase in NPAs of public sector banks, despite significant progress in recoveries. In the case of foreign banks, recoveries exceeded net accretion to NPAs. The ratios of gross and net NPAs of commercial banks to advances and total assets have been declining across all bank groups. Gross NPAs of public sector banks, at 11.1 percent of gross advances, and 4.9 percent of total assets, are higher than those of private sector and foreign banks. Advances to non-priority sectors accounted for the bulk of the outstanding NPAs in the case of both public sector banks (53.5 percent) and private banks (77.9 percent).

At the end of March 2002, 25 out of 27 public sector banks (PSBs) had capital to risk-weighted asset ratio (CRAR) above the prescribed minimum level of 9 percent. Of these, as many as 23 banks had CRAR exceeding 10 percent.

Two PSBs, two private sector banks, and one foreign bank, did not fulfil the minimum CRAR. The CRAR of scheduled commercial banks, as a whole, increased from 11.2 percent at end-March, 2001 to 11.8 percent at end-March, 2002.

Capital markets continued to be subdued. The NSE-50 index, which was at 1,087 in January 2002, was at 1,073 in January 2003, showing no significant change. This weakness in the secondary market led to a small volume of issuance on the primary market. However, the drop in the Indian equity market in the period after December 2001 is smaller than that in many other countries. Unlike the heavy inflows in the preceding years, there was a small outflow of foreign portfolio investment from India between April to November 2002.

The subdued conditions in domestic capital markets, however, conceal important structural reforms. The equity market has absorbed a new market design, with rolling settlement and equity derivatives trading. Liquidity, which was adversely affected in July 2001, has bounced back to strong levels from March 2002 onwards. In 2001, two Indian exchanges, National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), ranked third and sixth among exchanges all over the world, sorted by the number of transactions.

Risk management functions performed by the Clearing Corporation of India Limited (CCIL) for bonds and foreign exchange transacted by telephone, has imparted a new level of safety with regard to settlement risk. In January 2003, government bonds started trading on stock exchanges, ushering in a new level of transparency and market access for the government bond market. This is a welcome move away from bilateral negotiation towards anonymous screen-based order matching.

Recent legislative amendments to the SEBI Act have put SEBI on a better footing in terms of enforcement of proper market conduct. This should help reduce the extent of market malpractice and improve market efficiency. The UTI Act was repealed to break UTI into UTI-1 and UTI-2, with UTI-2 handed over to a new set of owners.

Public finances, both at the Centre as well as the States, which have been under pressure since 1997-98 after the implementation of the Fifth Central Pay Commission's recommendations, deteriorated further in 2001-02. The fiscal deficit of the Central Government, as a proportion of GDP, which had increased continuously from 4.1 percent in 1996-97 to 5.6 percent in 2000-01, rose further to an estimated 5.9 percent in 2001-02. The primary deficit of the Central Government (excluding loans to States against small savings collections), after turning into a small surplus in 1996-97, started deteriorating thereafter, reaching a level of 1.4 percent of GDP in 2001-02.

The lack of fiscal consolidation at the State level is revealed by a similar deterioration of their combined fiscal deficit, again as a proportion of GDP, from 2.7 percent in 1996-97 to 4.3 percent in 2000-01, and further to a revised estimate of 4.6 percent in 2001-02. The consolidated fiscal deficit of the Centre and the States was 10.0 percent of GDP, according to the revised estimates for 2001-02.

During the first nine months of the current year, central finances displayed considerable improvement with the fiscal deficit at Rs 86,269 crore, slightly lower than the figure of Rs 89,014 crore observed in April-December 2001. However, the remaining part of the year could see some pressures on both revenue and expenditure. Unanticipated weakening of the growth momentum may affect revenue collections. Expenditure management would also pose larger challenges because of enhanced food subsidies on account of higher farm support prices, higher fertiliser subsidy from augmented retention prices, larger subsidies resulting from distribution of liquefied petroleum gas (LPG) and kerosene at below market prices, and unanticipated expenditure on drought relief. The disinvestment programme is running behind schedule, and there is likely to be a shortfall in capital receipts under this head. During the year, the Central Government also had to provide Rs 938 crore of budgetary resources for rehabilitation of the UTI.

AT the level of the States, while a large number of initiatives like Fiscal Responsibility legislations, and medium-term fiscal reform programmes, have been undertaken, pressure on the fiscal front continues. While the expenditure composition, both for the Centre and the States continues to reflect a preponderance of wages, salaries, interest payments, and subsidies, there has been some welcome relief on the interest payments front with the softening of interest rates in recent months. The high fiscal deficit continues to complicate the task of conducting counter-cyclical fiscal policies and augmenting outlays on the much needed social and physical infrastructure, and poverty alleviation programmes.

A significant reform in the current year was the dismantling of the administered price mechanism for petroleum products from April 1, 2002, exactly as per the schedule announced in 1997. Reforms picked up speed in the third quarter of the current year. The winter session of Parliament saw the passage of several important Bills, including Securitisation and Reconstruction of Financial Assets and Securities Bill, 2002, the Securities and Exchange Board of India (Amendment) Bill, 2002, the Unit Trust Of India (Transfer of Undertaking and Repeal) Bill, 2002, Prevention of Money Laundering Bill, 2002, the Companies (Amendment) Bill, 2002, the Companies (Second Amendment) Bill, 2002 and the Competition Bill, 2001. The announcement about the disinvestment strategy for Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL), in December 2002, cleared the uncertainty over privatisation.

CONSUMPTION, SAVINGS AND INVESTMENT

With a faltering global recovery, private final consumption expenditure has been the major factor sustaining growth in the Indian economy. Private final consumption expenditure, at constant 1993-94 prices, increased by Rs. 48,275 crore or 5.9 percent in 2001-02, compared to a rise of only 5.6 percent in GDP at factor cost at constant prices. Private final consumption expenditure as a proportion of GDP at market prices — both at constant prices — increased from 62.2 percent in 2000-01 to 62.5 percent in 2001-02.

The composition of private final consumption expenditure in 2001-02 displayed a change in trends observed for a number of years. The share of food, beverage and tobacco in overall consumption at constant prices, which had steadily declined from 54.8 percent in 1993-94 to just about 48.1 percent in 2000-01, improved to 48.8 percent in 2001-02.

The increase was largely due to a more than one percentage point increase in the share of expenditure on cereals. Cereal expenditure rose, presumably on account of pressures on open market prices of foodgrains, whose supply reduced because of heavy procurement under the central pool.

▶Continued on next page

OUTLOOK: PUBLIC FINANCE

FISCAL consolidation remains a major challenge. The Tenth Five Year Plan (2002-07) has thrown up a new challenge in terms of raising public and private investment levels to realise the average growth target of 8% per annum. The growth envisaged in the plan requires an average annual investment of 28.4% of GDP involving acceleration in the investment rate from 24.4% of GDP in the base year (2001-02) to 32.3% of GDP in the terminal year of the Plan.

The step up envisaged in the public sector investment is nearly 3 percentage points of GDP. The total government expenditure of the Central government at 16.7% of GDP in 2002-03 (BE) is not higher by international comparison. Public investment needs to be stepped up to realise the Tenth Plan growth target of 8% per annum. Expenditure needs to be prioritised by pruning untargeted subsidies and exercising utmost economy in wages. Besides, emphasis needs to be laid on the completion of on-going projects before committing expenditure on new projects.

The existence of a fairly large unorganised sector, exemptions and evasions have affected buoyancy of tax collections. Modernisation of tax administration, broadening the base and respecting the exemptions to the bare minimum may improve revenue collections. The appointment of two task forces on direct and indirect taxes under the chairmanship of Dr Vijay L Kelkar indicates the importance attached to these aspects by the government. The follow up on the recommendations of these task forces is expected to result in improved tax collections in the medium term.

Tax reforms so far remained confined to the Central government. This position has changed with State government deciding to introduce VAT from April 1, 2003. This has further strengthened the hopes of fiscal consolidation. The shift in emphasis on disinvestment in public enterprises from sale of minority share holding to strategic sale and emerging consensus on the need to speed up privatisation are also likely to contribute to fiscal consolidation.

KEY INDICATORS

KEY INDICATORS	1999-00	2000-01	2001-02	2002-03	1999-00	2000-01	2001-02	2002-03
	Absolute Values				% change over previous period			
Gross national product (at factor cost) (Rs Thousand Crore)								
At current prices	1746.5	1900.3 P	2081.4 Q	2217.8 A	10.3	8.8P	9.5 Q	6.6 A
At 1993-94 prices	1136.8	1186.3 P	1257.0 Q	1309.9 A	6.2	4.3P	6.0 Q	4.2 A
Gross domestic product (at factor cost) (Rs Thousand Crore)								
At current prices	1761.9	1917.7 P	2094.0 Q	2236.1 A	10.2	8.8P	9.2 Q	6.8 A
At 1993-94 prices	1148.4	1198.7 P	1265.4 Q	1320.7 A	6.1	4.4P	5.6 Q	4.4 A
Agri. & allied sectors (Rs Cr) (at 1993-94 prices)	286.98	285.88	302.05 Q	292.63 A	0.3	-0.4	5.7 P	-3.1 A
Index of agri. production (1)	176.8	167.3 P	177.1 P	156.0	-0.6	-5.4P	5.9 P	-11.9 P
Foodgrains production (Million tonnes)	209.8	199.5	212.0 P	183.2	3.0	-4.9	6.3 P	-13.6 P
Index of industrial production (2)	154.9	162.6	167.0	170.5**	6.7	5.0	2.7	5.3#
Electricity generated (Bn Kwh)	480.7	499.5	515.2	397.6**	7.2	3.9	3.1	3.7**
Wholesale price index (3)	150.9	159.2	161.8	167.9*	6.5	4.9	1.6	4.4*
Consumer price index for Industrial worker (4)	434.0	445.0	468.0	484@	4.8	2.5	5.2	3.2@
Money supply (M3) (5) (Rs Thousand Crore)	1,124.2	1,313.2	1,500.0	1689.1(6)	14.6	16.8	14.2	15.7(6)
Imports at current prices								
(Rs Crore)	2,15,236	2,30,873	2,45,200	2,13,225**	20.7	7.3	6.2	17.5**
(US $ million)	49,671	50,536	51,413	43,882**	17.2	1.7	1.7	14.5**
Exports at current prices								
(Rs Crore)	1,59,561	2,03,571	2,09,018	1,85,211**	14.2	27.6	2.7	23.4**
(US $ million)	36,822	44,560	43,827	38,115**	10.8	21.0	-1.6	20.4**
Foreign currency assets (7)								
(Rs Crore)	1,52,924	1,84,482	2,49,118	3,34,065(8)	21.9	20.6	35.0	47.7(8)
(Us $ million)	35,058	39,554	510,49	69,888(8)	18.8	12.8	29.1	50.1(8)
Exchange rate (Rs/US $) (9)	43.33	45.68	47.69	48.54(10)	-2.9	-5.1	-4.2	-2.16(10)

NOTE: Gross national product and Gross domestic product figures are at factor cost (base 1993-94)
Q-Quick estimates; A-Advance estimates; P-Provisional; * As on 18.1.2003 (provisional). @ December 2002. # April-November, 2002. ** April-December, 2002
1. Index of agricultural production (of 46 crops, including plantations) with base triennium ending 1981-82=100. 2. Index of industrial production, base 1993-94=100
3. Index (with base 1993-94=100) at the end of fiscal year 4. Index (with base 1982=100) at the end of fiscal year 5. Outstanding at the end of financial year
6. As on January 10, 2003, year-on-year growth 7. Outstanding at the end of fiscal year 8. At the end of January, 2003 9. % change indicates the rate of appreciation(+) /depreciation (-) of the Rupee vis-a-vis the US Dollar 10. Average for April-January, 2002-03

indigent people, nutrition programme, hostel for scheduled caste/scheduled tribe/other backward castes, food for work, and mid-day meal, at 5.48 million tonnes during April-October, 2002, was considerably higher than 3.15 million tonnes during the same period of the previous year. The stability in prices of essential items, including food, through the management of the adequate buffer stock has helped in protecting the poor from some of the suffering that is traditionally associated with droughts in the country.

Apart from drought relief, the Government has taken a few other measures for improving living conditions in both rural and urban areas. Central allocation has been stepped up under the Accelerated Rural Water Supply Programme (ARWSP).

The corpus of the Rural Infrastructure Development Fund (RIDF) has been enhanced in the current year along with a reduction in the rate of interest on loans from the Fund. The rural housing initiative is being carried forward through the ongoing Indira Awaas Yojana (IAY) scheme. **Housing** activity in the country, on the whole, has shown distinct signs of pick-up, as reflected in the higher outflow of credit to housing during the current year, primarily on account of encouraging fiscal incentives for housing finance.

The Housing and Urban Development Corporation (HUDCO) has been the key player in stepping up housing finance. HUDCO has also been instrumental in implementing the low cost sanitation scheme in urban areas, which intends to eliminate manual scavenging, and under which 860 schemes have been sanctioned in almost 1,500 towns till the end of December 2002.

IT'S HOW YOU LOOK AT IT

ISSUES AND PRIORITIES

The current year is the first year of the **Tenth Five Year Plan** (2002-07), which envisages an average annual growth rate of 8 percent. While the growth performance in recent years has been lower than this target, international evidence, as well as India's own experience, demonstrate that the target is indeed feasible. Malaysia, Republic of Korea, and Thailand, among other East Asian countries, sustained annual growth rates at levels equal to, or higher than what India is seeking to achieve in the Tenth Plan, for several years, before the outbreak of the East Asian crisis.

The People's Republic of China, a large country like India in terms of both area and population, has been one of the best performers among the major economies of the world during the 1980s and 1990s, and has been maintaining high growth (7 percent plus) despite the recent slowdown in global economic activity. Furthermore, the acceleration in growth in these countries from fairly modest initial levels took place rapidly, almost in the manner of a jump-start.

THE experience of India in terms of growth acceleration is also similar to that of countries in East Asia and China. The decadal average annual growth rate of the Indian economy, after fluctuating around 3½ percent for the decade of the 1950s, 1960s and 1970s, took a quantum leap to 5.65 percent in the decade of the 1980s.

Similarly, after hitting a low of 1.3 percent in 1991-92 in the aftermath of the balance of payments crisis, the annual rate of growth rapidly accelerated to around 7½ percent during 1994-95 to 1996-97.

The drivers of change and rapid growth acceleration have to be technology and competition, together with benchmarking to the best international practices. India is now taking advantage of all three factors. Technology is getting upgraded rapidly and competition in the market place has become fierce.

The IT revolution, and the vibrant IT industry in the country, have been critical factors in making information available about state of the art technology and in bridging the technological divide in some sectors.

With quantitative restrictions on imports a thing of the past, customs duties progressively coming down, and foreign investment — both direct and portfolio — liberalised, integration of India into the global economy is also progressing. Buoyant export performance, a surplus in the current account, and the strong balance of payments position demonstrate the success of the country in this integration process.

There is an intimate and virtuous interaction among the drivers of change mentioned earlier. This is best illustrated by the consumer goods, automobiles and telecommunications industries in the country. Previously under quantitative restrictions, consumer goods can now be imported freely upon payment of customs duty. While some foreign consumer products have appeared in shops, particularly in up-market segments, their presence is limited. However, there has been a remarkable improvement in the quality of domestic consumer products, with convergence towards the best international practices.

The automobile sector, previously under a strict licensing regime, has been a direct beneficiary of competition and technology in the new liberal regime. Not only has automobile output grown at double digit compound rates, but the sector has become a sizeable exporter.

Major international auto-companies now have operations in India, and are increasingly using the country as a platform for export-oriented production. There is also a strong set of upstream firms, producing ancillaries for, and providing design consultancy to the automobile industry. The telecommunications sector provides another illustration of a virtuous interaction between technology and competition. While mobile telephony is rapidly raising teledensity, price competition between two technologies, namely Global System for Mobile (GSM) and Code Division Multiple Access (CDMA), has yielded price benefits to the consumer.

It is vital that this virtuous interaction among technology, competition, and benchmarking to the best international practices is extended to agriculture. While the spectacular growth in production of cereals has been instrumental in ensuring the country's food security, there is a need to accelerate the trend towards growing diversification in agriculture.

The principal focus in the past five decades was to maintain foodgrains growth abreast of population growth. India has been successful in this regard. All the facets of agriculture policy so far have been guided for meeting shortages as it was considered risky for a country of India's size to depend on imports for meeting critical shortages in essential commodities like foodgrains and sugar. However, there remain vital areas, which in the process have remained rather neglected. India's advantage lies in owning the asset of the largest arable land area next only to USA, and ranking first in irrigated area in the world. Most importantly, the country is characterised by a variety of agro-climatic regions that enables production of all possible kinds of tropical, semi-tropical and temperate agriculture products. The focus, therefore, has to shift towards improving productivity in horticultural products that encompass a variety of fruits and vegetables, which would have a global market if only these products are properly graded, processed, packaged and transported under fast and modern transit systems.

Value addition in horticulture, floriculture, and sericulture, as well as in food processing can yield rich dividends to farmers and expand the scope for quality employment. Whereas success stories have been reported in competing in the global market for export of flowers and fruits from Maharashtra, Andhra Pradesh, and even Uttar Pradesh, the vast potential for exports of value added horticultural products can be realised only when there is appropriate infrastructure specific to processed agri-product exports available in the country. There are many ports which do not have mechanical loading facilities for fast moving products. India currently produces 145 million tonnes of fruits and vegetables, of which less than 2 percent follow the processing route thus depriving Indian producers of the benefits of value addition, and access to global markets.

What is needed in addition is not only improved seed technology and modern irrigation systems, but also processing industries specific for various agriculture products.

Unlike cereals and oilseeds, fruits and vegetables are perishable. Cold storage is essential for their preservation.

There is some acceleration noticed in expanding cold storages in the current year. But irregular and poor quality of power supply has been acting as a serious barrier to growth in cold storages. The key to value addition in agriculture, and consequent income and employment growth in rural areas, lies in building up the required infrastructure.

Public-private partnership can play a vital role in promoting this infrastructure. The earlier emphasis on raising irrigation potential has to be renewed with greater vigour, especially through watershed development. Access to water — potable drinking water, and ordinary water for irrigation — is an absolute necessity and should constitute an integral part of the strategy for rural infrastructure development.

WATER will increasingly emerge as a scarce resource. The vulnerability of Indian agriculture to monsoon failures has focused renewed attention on how best to utilise this scarce resource. It is also time to rethink whether the country can afford the practice of irrigation through field flooding, which is basically wasteful, and evaluate more economic methods of irrigation. The Accelerated Irrigation Benefits Programme (AIBP), aiming to help states in establishing irrigation facilities through Central Loan Assistance (CLA), has assured full central assistance to approved major and medium irrigation projects being completed within a year, under its fast track programme from February 1, 2002. A new initiative, 'Hariyali', intending to strengthen the technical capabilities of panchayati raj institutions (PRIs) for implementing the existing watershed development programmes like Integrated Wasteland Development Programme (IWDP), and Drought Prone Area Programme (DPAP) — has been launched on January 27, 2003. What is important, however, is a mechanism for more efficient cost recovery to not only ensure adequate funds for operation and maintenance, but also to promote a sense of user participation and water conservation.

The flow of **institutional credit** to agriculture has witnessed a sharp increase of 21 percent in 2001-02 compared with 14 percent in 2000-01. This seems to have had a positive impact on capital formation in agriculture in 2001-02. Under the Kisan Credit Card (KCC) scheme, more than Rs 64,000 crore has been sanctioned till September 2002. The scheme intends to cover all eligible farmers by March 31, 2004, and is also extending personal insurance cover (for accidental death, permanent disability etc.) to its beneficiaries. The National Agricultural Insurance Scheme (NAIS), which extends to all food crops, had covered more than 20 million farmers till rabi 2001-02. Implementation of NAIS will soon be taken over by the Agriculture Insurance Company of India Ltd., which is now awaiting registration with the Insurance Regulatory and Development Authority (IRDA). This new corporation, set up with an authorised capital of Rs 1,500 crore by the General Insurance Corporation (GIC), NABARD, and four public sector general insurance companies, also aims to cover other rural/agricultural risks in addition to crop insurance. There is a strong case for utilising the services of self-help groups and other micro-credit institutions and, with proper regulatory systems, enlisting the support of local persons with knowledge of local conditions to efficiently lend money from banks to farmers, while reducing transactions costs and minimising the risk of default. Participation of private insurers in agricultural insurance will also provide the benefits of a competitive market.

Despite the vast variety of agro-products produced, the country's annual **agro-exports** are valued at less than US$ 6 billion with marine products alone accounting for 20 percent.

Exploiting the country's untapped export potential in agriculture requires removal of regulatory inefficiencies like prohibitive food standards laid down by the Prevention of Food Adulteration Act, the Food Products Order, the Meat Products Order and the Bureau of Indian Standards. During the current year, the number of commodities under the Essential Commodities Act have been reduced to eighteen. The restrictions on movement and stocking of six agricultural products have also been removed with the objective of establishing a common market in the country. Futures trading in agriculture has been extended to 42 commodities including sugar and tea. However, in order to promote diversification in agriculture by enabling producers to directly access new markets, it is essential to amend the Agricultural Produce Marketing Committee (APMC) Act. This would, however, require urgent action on part of States since agriculture is a State subject. The reform measures adopted in the current year are likely to create new avenues for private investment in agriculture and lay the foundation for value addition besides improving quality of agro-products for global markets.

The virtuous interaction among technology and competition in India, while benchmarking to the best international practices, will need an enabling environment and will need to be facilitated by three factors: appropriate social and physical infrastructure, a suitable regulatory framework and an efficient tax system, and macro-economic stability.

Amongst the **priority areas** requiring focussed attention are the elimination of illiteracy, reduction in infant and maternal mortality rates, eradication of diseases such as malaria and polio, provision of quality transportation facilities in the form of roads, railroads, ports and airports, reliable and reasonably priced power supply, and safe drinking water and sanitation.

There is a need to encourage public-private partnership in promoting infrastructure to leverage public funds, improve quality of service delivery and ensure better value for money. The success achieved under the NHDP launched by the Prime Minister in October 1998 indicates that there is considerable scope for new methods of financing and public-private partnerships in this area.

It is essential to build on the limited success achieved in promoting public-private partnerships in the field of power generation, transmission and distribution, and accelerate reforms to remove an important bottleneck on the country's development.

There is considerable scope for improving the delivery of social services, such as health care, by promoting community and private sector participation. What is required is a change in the paradigm of the public sector to 'providing' public goods and services, without necessarily "producing" them itself.

Considerable progress has been made in the area of regulatory framework and a suitable tax system. For example, the Telecom Regulatory Authority of India (TRAI), State Electricity Regulatory Commissions (SERCs), Insurance Regulatory and Development Authority (IRDA), Securities and Exchange Board of India (SEBI), have been functional for some time. The Competition Bill, 2001 has also been passed by the Parliament. However, what is needed is an overhaul of the regulatory regime in agriculture. A closely related issue is the question of labour market reforms and small-scale industry (SSI) reservation. The country should seek to sell to the global market consumer goods of quality, at competitive prices, produced in large-scale establishments operating under flexible labour-markets. Furthermore, it is essential to restructure the **tax system** with a move to an impersonal and efficient tax administration with a minimum interface between the assessee and the tax official, and a system with minimum of exemptions in the field of central excise and States sales tax, and a move to a value added tax (VAT). The proposed move to VAT by the States from April 1, 2003 will be an important landmark in establishing an efficient and self-enforcing domestic tax system with minimal cascading effects. A reduction in the rate of Central Sales Tax (CST), and its elimination over time will be important steps towards the establishment of a unified Indian common market.

India is moving towards macro-economic stability through the pursuit of a suitable combination of **fiscal and monetary policies**. While sluggish growth suggests counter-cyclical policies, there is a need to step up progress in the field of fiscal consolidation. The fiscal deficit, as a proportion of GDP, has gone up from 4.1 percent in 1996-97 to 5.9 percent in 2001-02 for the Central Government, and from 9.5 percent in 1999-2000 to 10.0 percent in 2001-02 for the general government (i.e. consolidated Centre and States).

While the **rate of interest** continues to be below the rate of growth of the economy, high primary deficits (fiscal deficit less interest payments) have led to progressive increases in both the deficit to GDP and debt to GDP ratios. Increases in debt, with the associated high interest payments, have resulted in pre-emption of a very large proportion of revenue receipts, both of the Centre as well as of the States, by interest payments, wages and salaries, and pensions. Given the indices of growth recovery already visible, without fiscal consolidation, there is a risk that the preemption of resources by the general government will crowd out the nascent recovery in private investment.

Fiscal consolidation requires a two-pronged strategy of augmenting revenues and restraining expenditure. An efficient, computerised, and impersonal tax system is critical for increasing the tax-GDP ratio. In non-tax revenue, there is a clear need for better cost recovery through appropriate user charges. On the expenditure front, it is critical to contain the growth of wages, salaries and pensions.

There is a need to revise the rate of interest on small savings mobilised by the government in line with movements in market related interest rates. Any successful expenditure rationalisation and reprioritisation programme must address the issue of **subsidies**, through a rationalisation of the prices of food, fertilisers, LPG and kerosene. There is a need to look into the whole issue of federal fiscal transfers, including the role of the plans, gross budgetary support for the plans, and why plan expenditure affects the path of fiscal deficit and debt adversely, and how.

With India emerging as a surplus producer of a number of exportable agricultural products, including foodgrains, in recent years, efficient management of the country's food economy has become a major policy issue.

The comparative and regional advantage of some crops, has, however, been distorted by minimum support prices (MSP) for rice and wheat, thus generating both surpluses (sugar, rice, wheat) and shortages (oilseeds, pulses and fibres). Accumulation of large food stocks has posed serious issues with regard to the effect of current food management policy, not only on agricultural growth and diversification, but also on the fiscal deficit.

The merits of the MSP in achieving the objective of food security is established. So is the general consensus that some food subsidy is absolutely essential for providing income support to the country's poor and vulnerable. Apart from providing subsidised foodgrains to the Below Poverty Line (BPL) population (over 30 crore), a most significant and innovative measure to address abject poverty is the Antyodaya Anna Yojana, which enables a section of the poorest (about 6 crore) to obtain 35 kg foodgrains per month at the low price of Rs.2/- per kg for wheat and Rs.3/-per kg. for rice. It is important, however, to recognise that our procurement methods have begun to seriously distort, and also eliminate the role of private trade in foodgrains, thus aggravating the subsidy commitment of the Central Government.

There is a need to economise on buffer carrying costs, as also procurement costs, which may be possible by involving state participation in procurement. FCI is faced with serious diseconomies of scale, since it is now procuring and stocking almost three times the normal volume of grains.

The last quarter of the current financial year has seen rapid escalation of tensions in the Persian Gulf. The possibility of hostilities breaking out in the Middle East has cast doubts over the pace of global recovery in 2003.

With global crude oil prices rising, there are serious concerns regarding the growth prospects of emerging market economies, particularly those in developing Asia, in the coming months. Apart from large food stocks held in the central pool, the huge volume of foreign exchange reserves held by the country provide comfort in an uncertain global situation.

With reserves rising to more than US$73 billion, India is now one of the top reserve-holding, emerging market economies.

The country is capable of financing higher import bills in the event of steep escalation in global oil prices or other exogenous developments. However, a prolonged conflict in the Middle East is likely to affect the export prospects of several economies of developing Asia, due to their heavy dependence on the US economy.

Notwithstanding a marginal compression in export prospects, the overall growth performance of the Indian economy in the coming months is unlikely to be seriously affected by the developments in the Gulf, due to the clear signs of revival in domestic demand, and the resultant buoyancy imparted to domestic economic activity.

Nevertheless, there is an imperative need to address the three issues of infrastructure, regulatory and tax reform, and fiscal consolidation, to establish the foundations of robust growth on a sustained basis.

OUTLOOK: INFRASTRUCTURE

POLICY makers have worked on infrastructure policy problems for over a decade. The most striking success is visible in telecom. Teledensity has risen dramatically. The telecom sector will feature lively competition between multiple private firms, with a strong role for TRAI to establish pro-competitive policies.

The successful completion of NHDP, with projects completed on time and on budget, and the successful maintenance of the new roads, are key focus areas. Some new links are needed between cities, and some four-lane highways will need to be converted into six-lane expressways. Market-oriented mechanisms for addressing allocative problems are important, so that scarce public resources generate the maximal production of the most needed roads. In the area of ports, a key insight has been the extent to which existing port facilities can yield better output given better institutional mechanisms, without requiring substantial new investments.

The performance of Indian ports still lags far behind the standards seen in ports such as Singapore or Hong Kong. The key question that requires focus is establishing a framework through which there is competition between multiple operators in a given port, and competition between ports. The railways remain an extremely important area. This suggests that with institutional mechanisms in place, the cost of transportation by railways would be much cheaper than by road. The experience with the transformation of telecom, roads and ports serve as role models for the institutional change that may be required.

In the power sector, there is clarity on the separate issues in generation, transmission and distribution. Generation does not pose problems of public goods. It can be a normal private industry, provided the downstream buyers are operating in a sound institutional framework. Once reforms in transmission and distribution are in place, it will not be difficult to elicit private investments in generation. The key bottleneck faced today lies in the enforcement of user charges in distribution.

OUTLOOK: EQUITIES

THE equity spot market has made enormous progress with a state of the art trading system, sound clearing mechanisms, and t+3 settlement at the depository. Sebi has been working towards shortening the three-day delay between the transaction and settlement date. This effort is constrained by the ability of the payments system to move funds across, and thus await improvements in payments infrastructure.

It also requires electronic data exchange within the securities industry, which is called "straight through processing" (STP). Sebi is working with all participants of the securities industry to establish STP. In November 2002, a first phase of the STP implementation came about. RBI and Sebi are jointly working on margin trading mechanisms, through which customers would be able to buy or sell shares using borrowed assets, subject to putting up a 'margin' of 40%. In November 2002, Sebi approved the establishment of a Central Listing Authority (CLA), which would centralise the listing function which currently takes place at the exchange level. Once CLA is fully functional, it may take up ongoing monitoring of compliance of listing requirements by firms.

The most difficult area in terms of obtaining a sound secondary market concerns the problems of market manipulation, and those of establishing sound procedures for surveillance. One key element for making progress in this would be a requirement that every trade should be tagged with the PAN number of the customer.

In the area of the debt market, two elements are currently in place — corporate bond settlement is taking place in dematerialised form, and government bonds are now traded on exchanges using anonymous order matching. The equity derivatives market has made enormous progress on obtaining liquidity. However, these is much to be desired in terms of pricing efficiency. Recent studies have revealed that prices of equity derivatives often diverge from those consistent with the lack of arbitrage opportunities. There is a need for policy efforts at the level of exchange, Sebi and RBI in resolving the impediments to arbitrage.

Survey for lower interest rates, subsidy cuts

HT Correspondent
New Delhi, February 27

ECONOMIC SURVEY 2002-03 has recommended lowering of interest rates on small savings, promoting investments in capital markets and phasing out subsidies on cooking gas, kerosene and fertilisers.

But when Finance Minister Jaswant Singh presents his maiden budget on Friday, taking that call won't be easy, given the NDA's electoral compulsions.

A hint of what could be unveiled in the budget lies in the annual Survey, the official report card on the state of the economy.

According to the Survey, the growth rate for the current financial year is forecast at 4.4 per cent, down from 5.6 per cent last year. It said the low growth in gross domestic product (GDP) was caused by a sharp decline in farm output due to the drought.

Which is perhaps why the Survey focuses on taking reforms to the rural economy with emphasis on agriculture and allied industries. It highlights the Centre's strategy to tap the huge potential in horticulture, floriculture and sericulture products in both domestic and global markets.

Opening up water resources to private companies for conservation is a major policy shift.

On the brighter side, industrial growth is expected to be 6.1 per cent in the current fiscal compared with 3.3 per cent growth last year.

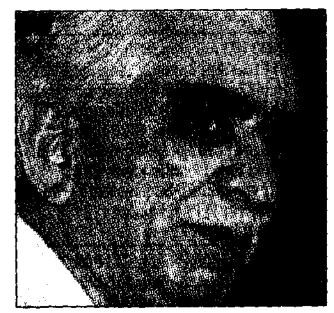
The Survey also recommended a slew of measures to boost capital markets, privatisation of PSUs, further liberalisation of foreign exchange transactions and prepayment of the Centre's costly debt.

Apart from creating a unified rural market with free movement of foodgrain and products, the Survey suggests providing insurance cover to farmers. The Agriculture Insurance Company has already been set up for this purpose, and the sector may be opened up to private insurers.

On rural infrastructure, the Survey underlined the need for roads, railways, reliable power supply, safe drinking water and sanitation. In these areas, the Survey suggested government-private partnership along the lines of the national highways project.

Related reports on Page 12

JASWANT'S FORMULA FOR ECONOMIC REVIVAL



Reforms: De-reserve more products in small sector. Open more areas to foreigners

Interest rates: Should be lowered further

Trade: Further liberalise import regime and lower customs duties. Focus more on services export

Capital markets: Allow buying and selling of shares on borrowed collateral

Subsidies: Phase out subsidies on kerosene, cooking gas. Continue with food subsidies for BPL people

THE HINDUSTAN TIMES
28 FEB 2003

ONGC and GAIL off divestment roster

OUR SPECIAL CORRESPONDENT

New Delhi, Feb. 19: The government today announced that it was not interested in privatising oil majors like Oil and Natural Gas Corporation, Gas Authority of India Ltd and Oil India Ltd.

"The government has decided not to privatise IOC, ONGC and GAIL, which will remain as public sector undertakings," disinvestment minister Arun Shourie told the Rajya Sabha in reply to a short-duration discussion on the disinvestment of oil marketers — Hindustan Petroleum Corporation Ltd and Bharat Petroleum Corporation Ltd.

The statement prompted Manmohan Singh, leader of the Opposition in the Upper House, to say that the government's decision not to privatise other oil majors only lent credence to suspicions that disinvestment of BPCL and HPCL would lead to "crony capitalism" as unscrupulous politicians and businesses would browbeat the management.

Shourie said provisions were being incorporated in the share sale deeds of the two PSUs being sold to ensure that security concerns like control of oil stocks and supply to armed forces in times of crisis could be ensured.

The minister added that the residual stake with the government after the selloff in HPCL and BPCL would be vested with an asset management company so that there was no interference in the day-to-day functioning of these companies.

He also indicated that a disinvestment fund would be set up as part of the next budget where proceeds from the selloff would be parked in keeping with a Cabinet decision on the issue. The funds will be used to retire government debt and funnel cash into social sector projects.

The disinvestment minister made these conciliatory gestures after BJP allies — the Shiv Sena and the Samata Party — made common cause with the Opposition in both the Houses to demand that the attorney-general, who had agreed with the Centre's view that HPCL and BPCL could be sold without the repeal of the Bills under which the oil retailers were nationalised in the seventies, should be brought before Parliament for a grilling.

Congress deputy leader in Lok Sabha Shivraj Patil said: "We would like to hear the attorney-general on the floor of the House."

The Sena chipped in, with its MP Chandrakant Khaire saying: "We are directly opposing this move. Why are you selling profitable companies like HPCL and BPCL? We will not accept it." Raghunath Jha of the Samata also opposed the selloff decision.

Similar pandemonium reined in the Lower House where Sanjay Nirupam of the Sena called for the AG's appearance before the House to explain his stand.

Shourie, on his part, defended the attorney-general's decision, stating these two companies were governed by the Companies Act unlike the Coal India and public sector banks that were taken over under coal nationalisation and bank nationalisation Acts, which specifically state that these would remain with the government.

Nod to crude carriers

Shourie has reportedly approved the acquisition of two very large crude carriers (VLCC) by the Shipping Corporation of India.

With the shipping corporation's privatisation plan in the final stages, both the ministries of disinvestment and finance had earlier opposed the acquisition plan, estimated to cost about Rs 650 crore, official sources said.

20 FEB 2003

THE TELEGRAPH

Govt fixes export standard

Press Trust of India

NEW DELHI, Jan. 28. — Close on the heels of Indian Basmati consignments being detained in the US on quality grounds, the government has decided to fix standards to be adhered to by all exporters in the country.

"We are aware of the quality related problems involving Indian Basmati and have worked out standards relating to all aspects of the commodity which will be released shortly," official sources said.

They said the standards have already been prepared and sent to the press for publication.

To steer clear of any controversy relating to origins, the geographical region where Basmati was produced had been simply termed as the Indo-gangetic plains, they said. This in effect could mean the entire expanse from Pakistan's Punjab to Assam in east India, though Basmati is technically produced in Punjab, Haryana, Uttaranchal and west Uttar Pradesh.

To begin with the standards will be applicable to exporters but may be later extended to domestic trade and will be monitored by the commerce ministry. The minimum length of grain has been kept at 6.7 mm and standards have also been kept for moisture content and 'chalkiness' in Basmati.

The standards will be applicable to both traditional and evolved Basmati grown in the country.

BASMATI RICE

Already a minimum price for export of Brown Basmati to Europe has been fixed last year to ensure that cheaper blends are prevented from being passed off in the special category.

The minimum price also aimed at preserving the 250 Ecu duty concession given to Basmati in the EU. Sources said the idea behind the policy decision was to preserve the niche Basmati had historically carved out for itself in the world market.

In terms of length of grain, aroma, 'chalkiness' and moisture, Basmati had specific parameters which should not be ignored by traders doing business in the commodity, they said.

The quality and characteristics being standardised for Indian Basmati would also help the country negotiate in the WTO and push its case for the commodity being registered under Trips as one from a particular geographical region of the world, they added.

The fixation of standards had been long delayed over the issue of geographical origins of Basmati. The sources said there had been sustained pressure from various quarters to include not only east Uttar Pradesh but also the adjoining regions of Rajasthan including the Kota division as area growing Basmati.

To steer clear of any region-based controversy it has been considered to tentatively earmark the region as the Indo-Gangetic plains.

29 JAN 2003

THE STATESMAN

Sorabjee nod paves way for oil firms' sale

19\1 HT 9-6 to Atm

HT Correspondent
New Delhi, January 18

THE STAGE is set for the privatisation of Hindustan Petroleum Corporation Ltd (HPCL) and Bharat Petroleum Corporation Ltd (BPCL) with Attorney-General Soli J Sorabjee informing the Centre that the sale of the oil majors does not require parliamentary approval.

Sorabjee is expected to send detailed written submissions to the Government on the subject next week, highly placed sources told *Hindustan Times*.

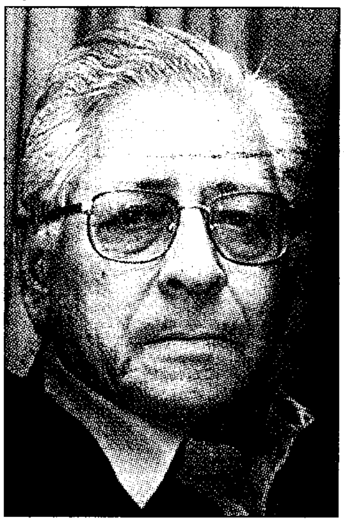
The Attorney-General has made his views known at several meetings with Disinvestment Department officials. The nub of his contention is that IBP, another oil public sector enterprise (PSE), had been privatised without an Act of Parliament. IBP had been formed after the nationalisation of several oil companies in the early 1970s.

The Government had during the winter session assured Parliament that it would be guided by the opinion of the Attorney-General on whether a parliamentary approval was required for privatising companies nationalised by an Act of Parliament.

In keeping with the commitment, the Government gave all details to the Attorney-General, who had a discussion on the subject with Disinvestment Minister Arun Shourie on Thursday.

The issue had assumed significance because in 1993, the then Attorney-General, Milon Banerjee, had given an opinion that the Government needed Parliament's clearance to disinvest the fertiliser co-operative, Iffco, as it had been created by an Act.

The Government, however, has been citing the instance of Maruti Udyog Ltd (MUL), which was privatised without an Act of Parliament.



Soli J Sorabjee
Clears the air

The sale of Government equity in the two oil PSEs had created a major rift within the ruling National Democratic Alliance. The selloff plan met with stiff opposition from Defence Minister George Fernandes, Petroleum Minister Ram Naik, Coal and Mines Minister Uma Bharti, Civil Aviation Minister Shahnawaz Hussein, the Rashtriya Swayamsewak Sangh and the Swadeshi Jagran Manch.

Fernandes, a veteran socialist, had written to the Prime Minister seeking a review of the Centre's divestment policy to guard against the "rich getting richer" and prevent private monopolies from spawning.

The Defence Minister, who favoured offloading Government equity to retail investors, had in his letter also questioned the model of stake sale to a strategic partner.

The squabble in the NDA had forced Prime Minister Atal Bihari Vajpayee to postpone the selloff decision by three months so that the warring groups could thrash out a solution.