

# **LOK SABHA DEBATES**

## **(English Version)**

**Ninth Session**  
**(Thirteenth Lok Sabha)**



Gazetted Officer's Unit  
Parliamentary Building  
Room No. PB-025  
Block 'G'

*(Vol. XXII contains Nos. 1 to 10)*

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**NEW DELHI**

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## LOK SABHA DEBATES

### LOK SABHA

[Translation]

Thursday, February 28, 2002/Phalgun 9, 1923 (Saka)

I am telling you that you will be heard after Budget.

(Interruptions)

The Lok Sabha met at Eleven of the Clock

[MR. SPEAKER in the Chair]

[English]

MR. SPEAKER : Nothing should go on record.

(Interruptions)\*

At this stage, Shri Ram Nagina Mishra and Shri

MR. SPEAKER : Nothing should go on record.

Vinay Katiyar came and stood on

(Interruptions)\*

the floor near the Table.

(Interruptions)

[Translation]

MR. SPEAKER : Please go back to your seats. You will be heard after Budget.

(Interruptions)

11.02 hrs.

[Translation]

SHRI ANANT GANGARAM GEETE : Mr. Speaker, Sir. 57 people have been burnt alive there . . . (Interruptions) 25 people were burnt to death earlier . . . (Interruptions) 15 children were burnt . . . (Interruptions) Why those who always raise slogans for communal harmony are silent . . . (Interruptions) Why Shri Dasmunsi Ji is silent? . . . (Interruptions)

[English]

SHRI PRIYA RANJAN DASMUNSI (Raiganj) : Sir, we want that the Home Minister should make a statement. . . (Interruptions)

[English]

MR. SPEAKER : After the presentation of the Budget I will allow you. Please go to your seats.

(Interruptions)

[Translation]

SHRI ANANT GANGARAM GEETE : Why they are silent today who advocate Secularism? . . . (Interruptions)

[Translation]

MR. SPEAKER : You will be heard after Budget. Just now, please let the Budget be presented. Later on, you will be heard. Please go back to your seat.

(Interruptions)

MR. SPEAKER : I have talked to Home Minister in this regard. Reactions in this regard would be received after the Budget presentation.

(Interruptions)

SHRI ANANT GANGARAM GEETE (Ratnagiri) : Protect Hindus . . . (Interruptions)

[English]

SHRI PRIYA RANJAN DASMUNSI : We stand for peace and love. We are against violence. We want the Government to make a statement in the House. . . (Interruptions)

MR. SPEAKER : Stop T.V. telecasting

(Interruptions)

SHRI MOHAN RAWALE (Mumbai South Central) : Why opposition is silent today?

[English]

[Translation]

SHRI ANANT GANGARAM GEETE : Why the members who always advocate Secularism are silent? . . . (Interruptions)

MR. SPEAKER : Please go to your seats.

\*Not recorded.

SHRI PRIYA RANJAN DASMUNSI : We are not silent. . . .(Interruptions) We demand that the Government should come out with a statement in this regard. (Interruptions) What are you talking about. . . .(Interruptions)

[English]

MR. SPEAKER : I have asked the Home Minister to make a statement.

(Interruptions)

SHRIMATI SONIA GANDHI : Mr. Speaker Sir, let the Home Minister make a statement. Let him make a statement. . . .(Interruptions)

11.08 hrs.

*At this stage Shri Ram Nagina Mishra and Shri Vinay Katiyar went back to their seats.*

[English]

MR. SPEAKER : I have already told the Home Minister to make a statement after the Budget presentation.

(Interruptions)

MR. SPEAKER : He will make a small statement.

(Interruptions)

[Translation]

SHRI ANANT GANGARAM GEETE : Mr. Speaker, Sir, Budget can be presented afterwards. . . .(Interruptions) Nothing is more important than the life of the people of the country. . . .(Interruptions)

[English]

MR. SPEAKER : Shri Advani, you can make a statement after the Budget is presented.

(Interruptions)

THE MINISTER OF HOME AFFAIRS (SHRI L.K. ADVANI) : Yes, Sir.

MR. SPEAKER : He has agreed to make a statement after the Budget presentation. . . .(Interruptions)

[Translation]

KUNWAR AKHILESH SINGH (Maharajganj, U.P.) : Mr. Speaker, Sir, I have given notice for adjournment motion. . . .(Interruptions)

[English]

MR. SPEAKER : The Secretary-General may now call the names of newly elected Members in the recent bye-elections, to take the oath or make the affirmation.

11.10 hrs.

## MEMBERS SWORN

Shri Dip Gogoi (Kaliabor)

Shri H.D. Deve Gowda (Kanakapura)

Shri Jyotiraditya Madhavrao Scindia (Guna)

11.13 hrs.

## GENERAL BUDGET, 2002-2003

[English]

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA) : Sir, I rise to present the Budget for the year 2002-2003.

The year 2001, the first year of the millennium, was a year of many tragic events. It started with the Gujarat earthquake on January 26, and ended with the terrorist attack on our Parliament on December 13, punctuated by the September 11 incident in the United States and the October 1 outrage in Srinagar. I salute the brave members of our security forces who defended this Parliament and made the supreme sacrifice. On the economic front too it has been a difficult year. World economic growth is estimated to have slowed down to 2.4 per cent in 2001 after seven consecutive years of higher growth. International terror and the global economic slowdown have been the saddest features of the past year.

## ECONOMIC CONTEXT

Despite the hostile economic and security environment, the economy has performed relatively well this year. After irregular monsoons in the previous two years an agricultural recovery was enabled by a relatively well distributed monsoon this year. Economic growth this year is expected to be about 5.4 per cent: higher growth being constrained by the industrial slowdown. The basic fundamentals of the economy remain strong: inflation has fallen to a record low of 1.1 per cent, foreign exchange reserves have crossed US \$50 billion, and our food stocks have risen to almost 60 million tonnes. The fall in petroleum prices has provided further relief to the economy as a whole.

While the country is economically secure there are still many challenges facing us. These have been described in detail in the Economic Survey presented to this House on February 26. My effort is to devise a budget strategy to meet these challenges.

### BUDGET STRATEGY

In my last budget I had laid out a comprehensive agenda of the second generation economic reforms. I had also deepened tax reforms aimed at providing a modern tax regime. My aim this year is to consolidate and implement these policies at all levels. I propose to take this process further at the State level through a strategy of reform linked public funding.

The broad strategy of the budget, therefore, is to:

- Continue the emphasis on agriculture and food economy reforms.
- Enhance public and private investment in infrastructure.
- Strengthen the financial sector and capital markets.
- Deepen structural reforms and regenerate industrial growth.
- Provide social security to the poor.
- Consolidate tax reforms and continue fiscal adjustment at both the Central and State levels.

The implementation of the announcements made in the last budget has been very closely monitored throughout the year. I started the practice last year to submit to Parliament an Action Taken Report on the previous year's budget. Accordingly, I am presenting a detailed ATR on last year's budget announcements. Some of the highlights are: deregulation of controls on agricultural commodities; progress towards decontrol of sugar; substantial reduction in the span of price control of drugs; decision to amend existing legislation governing revival and/or winding up of companies, along with abolition of SICA; substantial progress in privatization; progress in the implementation of Expenditure Reforms Commission's recommendations and announcement of VRS for surplus government employees.

These decisions demonstrate the resolve of this Government to carry forward the process of economic reforms, and to ensure that the benefits reach the common man. This will require improved implementation and governance. We shall put in place measures to effect

improvement in these areas with the objective of eliminating poverty and improving the quality of life of our citizens.

### AGRICULTURE AND RURAL DEVELOPMENT

#### Deregulation

Having achieved great success with the Green Revolution and then the White Revolution, the country is now ready for its third revolution of agriculture which is diversification and food processing. This requires policy changes, a renewed thrust on agricultural research and extension, and a new climate that encourages much greater investment in both the public and private sectors. Removal of the remaining regulatory and procedural rigidities that still exist and improved rural infrastructure is essential for this new revolution. Freedom to the farmer, Kisan Ki Azaadi is the overarching goal of our policy.

Even though agriculture is a State subject, there are a number of Central Government policies that influence this sector. The Government has reviewed the operation of the Essential Commodities Act, 1955. Restrictive orders inhibiting storage, selling and movement of food and agricultural products are being removed. We can now look forward to a countrywide integrated market for agricultural products. To continue this initiative, I am proposing further decontrol and deregulation of agriculture along the following lines:

- Amendment of the Milk and Milk Products Control Order (MMPO) to remove restrictions on new milk processing capacity, while continuing to regulate health and safety conditions.
- Removal of small scale industry reservations related to various agricultural equipment items.
- Decanalization of the export of agricultural commodities and phasing out of remaining export controls.
- Expansion of futures and forward trading to cover all agricultural commodities.

A multiplicity of regulations for food standards under the Prevention of Food Adulteration Act, the Food Products Order, the Meat Products Order, the Bureau of Industrial Standards and the MMPO, affect the food and food processing sectors. They need to be modernised and converged. The Prime Minister has decided to set up a Group of Ministers (GOM) to propose legislative and other changes for preparing a modern integrated food law and related regulations.

This process of providing freedom to the farmers now needs to be carried forward by State Governments. Amendment of the Agricultural Produce Marketing Acts to enable farmers to sell directly to potential processors would help them to receive better prices and to access potential new markets. In addition, the remaining State control orders which are acting as barriers to inter-State trade need to be lifted. I am proposing that additional allocations in respect of centrally sponsored schemes would be linked to decontrol and deregulation of the agricultural sector by the States.

In 2000-01, I had announced a Credit Linked Subsidy Scheme for construction of cold storages. I am happy to report that sanctions have already been given for the creation of 21 lakh tonnes capacity in cold storages, much higher than the target of 12 lakh tonnes. The rural godown scheme announced last year has also become operational. With the removal of various control orders much greater investment would be forthcoming under both these schemes. Accordingly, I propose to allocate Rs. 70 crore to each of these subsidy linked schemes in 2002-03.

### **Agricultural Credit**

As Finance Minister I feel particularly responsible for the flow of adequate credit to the agriculture sector. I am glad to report that the total credit flow to the agriculture sector through institutional channels is expected to reach the targeted level of Rs. 64,000 crore this year. It is expected to increase to Rs. 75,000 crore in 2002-2003. I propose the following steps to further improve the delivery of agricultural credit:

- The funds for RIDF VIII will be enhanced from Rs. 5000 crore to Rs. 5500 crore next year, while the rate of interest will be reduced from 10.5 per cent to 8.5 per cent. Henceforth it will be fixed at the prevailing bank rate plus 2 per cent. Assistance to the States from RIDF will be linked to reforms in the agriculture and rural sectors.
- Kisan Credit Cards introduced in 1998-99, have been a resounding success and have helped our farmers considerably in their access to agricultural credit. An additional 63 lakh KCCs have been issued upto December 31, 2001 taking the total to 2.07 crore. The personal insurance package linked to KCCs has also been operationalised.
- Similarly, the scheme of micro credit through Self Help Groups is progressing well. The target of

one lakh additional self-help groups during the current year is expected to be achieved taking the total so far to more than 3.5 lakh covering more than 70 lakh families, making it the largest micro credit programme in the world. I am raising the target to 1.25 lakh for 2002-03.

- A one-time settlement scheme for small loan accounts with outstanding principal balance upto Rs. 25,000 as on March 31, 1998 is already in operation. A special OTS scheme for small and marginal farmers will be announced by RBI to cover loans upto Rs. 50,000.

### **Crop Insurance**

The National Agriculture Insurance Scheme is already in operation. To subserve the needs of farmers better and to move towards a sustainable actuarial regime I propose to set up a new Corporation for Agriculture Insurance to be promoted by the existing public sector insurance companies.

### **Irrigation**

I propose to increase the allocation for the Accelerated Irrigation Benefit Programme (AIBP) from Rs. 2000 crore this year to Rs. 2800 crore in 2002-03. This will assist the States to accelerate the completion of unfinished medium and major irrigation projects, and also to undertake reforms by revising user charges and setting up of water users associations.

### **Agriculture Extension and Research**

The accelerated diversification and modernization of agriculture will require a new approach to research and extension services. I therefore propose to enhance the allocation for 2002-03 for agriculture research to Rs. 775 crore from Rs. 684 crore in the current year. A full review of the governance of agricultural research is also proposed so that the system can serve the new needs creatively.

Linkages between research and extension will be strengthened to improve quality and effectiveness of research and extension systems. The extension system will be revitalised and broad-based through Krishi Vigyan Kendras (KVKs), NGOs, farmers organisations, cooperatives, the corporate sector and agri-business clinics. KVKs will be designated as nodal agencies for quality certification including organic products, bio-fertilizers, and bio-pesticides. The supply of inputs, agro-processing and trade through such cooperatives/companies will be encouraged through

the availability of credit with the help of NABARD. The Companies (Second Amendment) Bill 2001, already introduced in Parliament will enable the conversion of existing producer cooperative businesses into companies.

### **Agricultural Exports**

Promotion of agricultural exports is important for creating conditions for providing remunerative prices to farm produce. For this purpose Agri Export zones are being promoted in different States and 15 such zones have been approved so far. APEDA will catalyse development of infrastructure and flow of credit to the units in these Agri Export zones.

## **RURAL DEVELOPMENT**

### **Rural Roads**

The Pradhan Mantri Gram Sadak Yojana (PMGSY) initiated to provide connectivity through all weather roads to all our villages is making considerable headway. A further allocation of Rs. 2,500 crore for the year 2002-03 is being made over and above Rs. 5,000 crore provided so far. Depending on the accelerated implementation of these works I intend to find additional resources including those from multilateral sources in the course of the year.

### **Rural Electrification**

During my last budget speech I had announced a package of initiatives for electrification of 80,000 villages that have no access to electricity. Considering the fact that SEBs find it difficult to service debt, the Government proposes to introduce a new interest subsidy scheme called the Accelerated Rural Electrification Programme. An outlay of Rs. 164 crore has been provided for this scheme in 2002-03.

### **Rural Employment**

The Sampoorna Grameen Rozgar Yojana (SGRY) announced by the Prime Minister in his Independence Day speech of 2001 was launched on September 25, 2001 by merging the ongoing Employment Assurance Scheme (EAS) and the Jawahar Gram Samridhi Yojana (JGSY). Since the launch of the scheme, release of 30.6 lakh tonnes of food grains to States has already been authorised, out of the total of 50 lakh tonnes. This scheme will be continued next year. I urge upon all the States to come forward to take full advantage of the free foodgrains being offered under this scheme.

Lok Nayak Shri Jai Prakash Narayan always had a special concern for the disadvantaged. In his birth

centenary year I propose to launch the Jai Prakash Rozgar Guarantee Yojana (JPRGY) to provide employment guarantee to the unemployed in the most distressed districts of the country. A Task Force headed by my colleague, the Minister of Rural Development, will be set up to design and implement a massive programme for employment generation in these districts. KVIC, DC (SSI), and other agencies will be fully involved in the implementation of this scheme.

The promotion of rural industrialisation would be helped greatly through capacity building and technology upgradation in Khadi and Village Industries. To help in this effort I propose to upgrade the Wardha Institute started by Mahatma Gandhi in 1935 as a national institute to be called Mahatma Gandhi Institute for Rural Industrialisation.

The diversification of agriculture will not succeed without appropriate infrastructure for marketing. For this purpose, rural local bodies, cooperatives and NGOs will be assisted to set up rural produce marketing centres and sub-centres at the district and block levels and to upgrade village haats under a special scheme of the Swarn Jayanti Gram Swarozgar Yojana (SJGSY).

Some parts of our country have been particularly afflicted with natural calamities. Additional allocation of Rs. 480 crore was provided under the Indira Awas Yojana for the affected States. Houses constructed by the poor under the Indira Awas Yojana (IAY) in such disaster prone areas will henceforth be provided insurance cover through a Master Policy.

### **Management of the Food Economy**

I had drawn attention last year to the severe policy and fiscal difficulties arising from the growing mismatch between the unprecedented level of procurement of wheat and rice by FCI and the much lower PDS and buffer stock needs in the last few years. The current situation of open-ended procurement by FCI at a high price and disposal at a heavily subsidised price is not sustainable. The concept of decentralised procurement has not yet found favour with the States. The report of the High Level Committee on Long Term Grain Policy is expected to be submitted shortly. We shall formulate a more durable approach for better management of our food economy after considering this report.

A number of steps have been taken by the Government to reduce the high food grain stocks that are posing serious problems of storage and disposal. These



measures include: increased allocations for BPL families; launching of a major food for work programme under the SGRY; allocation of 30 lakh tonnes of free foodgrains to States for relief works in areas affected by natural calamities; open market sales of 30 lakh tonnes this year compared to 5.5 lakh tonnes in 2000-2001; and enhanced incentives for export of food grains.

## INFRASTRUCTURE

I am now coming to Infrastructure. Provision of efficient and world class infrastructure is critical for our growth aspirations. A key issue that bears repetition is the imposition of appropriate user charges necessary to provide adequate returns on investment. Some success has been achieved in areas such as telecom, roads and ports where appropriate user charges exist. With the tariff rationalization and other bold measures introduced by my colleague, the Minister of Railways, we can expect the Railways to serve well the key transportation needs of the country in the years to come. Other areas such as power, urban infrastructure, other transportation and the like continue to experience great difficulty because of the lack of appropriate user charges.

### Power

Restoration of financial viability in the power sector remains crucial. The average rate of return for all SEBs is about minus 40 per cent and their combined losses continue to increase. Hence, this is one of the foremost challenges not only in the power sector but also for the fiscal health of the state governments and the overall performance of the economy.

In recognition of these severe problems the Prime Minister held a meeting with State Chief Ministers on March 3, 2001. While broadly agreeing with the desirability of power sector reforms to achieve commercial viability of State Electricity Boards, the conference placed special emphasis on distribution reforms and elimination of theft of electricity. Subsequently, the high level empowered group of Chief Ministers and Union Ministers has agreed to a one time settlement scheme in regard to SEB overdues to the Central Public Sector Utilities through securitisation and issue of tax free bonds by the respective State Governments, subject to the achievement of specified performance milestones and full payment of current dues in the future. I would urge upon the States to come forward and implement the scheme speedily.

The Ministry of Power has already signed Memoranda

of Understanding (MOUs) with 20 States and is expected to complete the exercise in the remaining States soon. To redouble our effort in this direction APDP is being redesigned as the Accelerated Power Development and Reform Programme (APDRP), with an enhanced plan allocation of Rs. 3,500 crore for 2002-03, up from Rs. 1,500 crore this year. Access of the States to the fund will be on the basis of agreed reform programmes, the centre piece of which would be the narrowing and ultimate elimination of the gap between unit cost of supply and revenue realisation within a specified time frame. Accordingly, the focus of reform in the power sector has shifted from generation to transmission and distribution.

A high level monitoring group will oversee the progress of this programme. Allocation for this programme will be augmented by loans on concessional terms from the Power Finance Corporation (PFC).

### Roads

I am glad to inform the House that the Prime Minister's National Highway Development Programme (NHDP) launched three years ago is progressing well. It now promises to achieve a totally new scenario in the road sector. The Golden Quadrilateral will be completed substantially by December 2003, a year ahead of schedule. The North-South East-West corridors have a length of 7300 kms., of which 716 kms. have already been four-laned. With the assistance of multilateral funding, other borrowings by the National Highway Authority of India (NHAI) with government guarantee, and other innovative financing schemes, the funding for this project will be tied up in 2002-03.

### Ports

The present Port Trust structure does not allow Indian major ports to have the flexibility needed for efficient management and for raising institutional funding. It is therefore proposed to corporatise major ports in a phased manner. Private sector investments have been facilitated and 17 projects worth more than Rs. 4,500 crore have already been approved and another 8 projects worth more than Rs. 3,200 crore are under consideration. With corporatisation of the existing ports and new private sector ports coming up, the regulatory structure will be strengthened.

## Civil Aviation

The Government has already announced its decision to upgrade the international airports at Delhi, Mumbai, Chennai and Kolkata to the standards of world class airports by inducting private sector management and investment through long term leasing systems. Modalities for inviting offers have been finalised and the leasing process will be completed in 2002-03.

Private sector participation in greenfield airports will be encouraged through a package of concessions. These are:

- Availability of land and related infrastructure from the State Governments.
- Exemption from levy of Inland Air Travel Tax (IATT) and Foreign Travel Tax (FTT) on departing passengers for projects located in States that charge sales tax on Aviation Turbine Fuel (ATF) at Central Sales Tax (CST) rate.
- Charging of Advance Development Fee (ADF) by way of additional Passenger Service Fee (PSF) at the existing airports for help in financing of the greenfield airport.
- Levy of User Development Fee (UDF) at the new airport.
- Financial assistance/equity participation by Airports Authority of India.

The proposed new airports in Bangalore and Hyderabad will benefit from these concessions.

## Urban Development

The 2001 census shows that the urban population in India is now about 285 million, greater than the total population of the United States. The number of cities with more than one million population has increased from 23 in 1991 to 35 in 2001. We are aware of the sad plight of most of our towns and cities. This needs to be changed if they have to act as engines of growth, and if they are to provide a healthy environment for our citizens. Hence, we can no longer afford to delay reforms in this sector.

I propose to set up an Urban Reform Incentive Fund (URIF) with an initial allocation of Rs. 500 crore to provide reform linked assistance to States. The Fund will seek to incentivise reforms in the following Sectors:

- Reform of Rent Control Laws and repeal of Urban Land Ceiling Acts.

- Rationalisation of high stamp duty regimes.
- Revision of bye-laws to streamline the approvals process for construction of buildings, development of sites, etc.
- Revision of municipal laws in line with model legislation prepared by the Ministry of Urban Development and Poverty Alleviation.
- Simplification of legal and procedural frameworks for conversion of agricultural land for non-agriculture purposes.
- Levy of realistic user charges and resource mobilization by urban local bodies.
- Initiation of public private partnership in the provision of civic services.

A City Challenge Fund (CCF) will be set up as an incentive based facility that will support cities to fund transitional costs of moving towards sustainable and creditworthy institutional systems of municipal management and service delivery. It will assist in the partial financing of the cost of developing an economic reform programme and financially viable projects to be undertaken by urban local bodies. It is also proposed to set up a Pooled Finance Development Scheme to provide credit enhancement to assist local bodies to access market borrowing on a creditworthy basis. To Provide a further incentive for urban local bodies to become credit worthy and to invest in urban infrastructure I am providing for the issue of municipal tax free bonds upto Rs. 500 crore in 2002-03, up from Rs. 200 crore this year.

## TOURISM

Tourism constitutes a priority area in view of its beneficial impact on growth of employment, generation of foreign exchange, and the promotion of greater national integration through domestic tourism. It is therefore proposed to implement a comprehensive tourism development package:

- 6 tourism circuits would be identified for development to international standards during 2002-03.
- Special Purpose Vehicles (SPVs) will be permitted to raise resources from both public and private sectors for infrastructure development in these circuits.

- One special area, the World Heritage Site of Hampi, will be developed as an international destination for tourism based on an integrated master plan.

The Plan Outlay for tourism has accordingly been increased by 50 per cent to Rs. 225 crore for 2002-03. I will have more to say on the fiscal measures relating to tourism in part B of my speech.

### **Infrastructure Finance**

Members are aware of the continuing effort that we have made to attract private sector investment in the infrastructure sector to supplement public investment. The flow of investment has however been slow except in the telecom sector. I therefore propose to take the following measures to facilitate faster private investment in infrastructure Sector.

- An Infrastructure Equity Fund of Rs. 1000 crore will be set up to help in providing equity investment for infrastructure projects. Contributions to the Fund to be managed by the Infrastructure Development Finance Company Limited (IDFC), would initially be made by public sector insurance companies, financial institutions and some banks.
- An institutional mechanism is being set up to coordinate the debt financing by financial institutions and banks of infrastructure projects larger than Rs. 250 crore. IDFC will act as the coordinating institution with primary responsibility for different sectors being shared with the IDBI and ICICI.
- Public private partnerships will be encouraged for the provision of infrastructure facilities, the modalities for which are being worked out by a Task Force.

### **Public Investment**

Public Investment in key infrastructure sectors is also being sharply stepped up. Plan outlay inclusive of internal and extra budgetary resources in power, roads and national highways and railways is being increased by 22 per cent, 39 per cent and 23 per cent respectively, to a total of Rs. 37919 crore.

## **FINANCIAL SECTOR AND CAPITAL MARKET**

### **Debt Market**

Substantial progress has been made on the proposals

made last year for the development of a transparent and active debt market in general and the government securities market in particular. Primary issuance of government securities is now being facilitated by an electronic Negotiated Dealing System (NDS) and efficiency of trading in government securities is being enhanced by the new Clearing Corporation of India Limited (CCIL). To help investors plan their investments better and to add transparency and stability in the market RBI will announce an issuance calendar for dated government securities. Having now received the concurrence of all state legislatures I also propose to introduce a new Government Securities Bill to replace the old Public Debt Act 1949 within this Parliament Session.

### **Capital Market**

In view of the various disturbances that have occurred in the capital market it is important to boost investor confidence and to strengthen market integrity. The following measures are being taken.

- The process of demutualisation and corporatisation of stock exchanges is expected to be completed during the course of the year, to implement the decision to separate ownership, management and operation of stock exchanges. The Securities and Exchange Board of India (SEBI) has already prohibited the induction of broker members in management positions in stock exchanges.
- Legislative changes will be proposed, during the Budget Session, in the SEBI Act, 1992 for investor protection, and to enhance the effectiveness of SEBI as the capital market regulator.
- Following certain developments overseas, and within the country, regarding accounting standards and effectiveness of auditors, it is proposed to strengthen regulation in this area.
- Foreign institutional investors (FIIs) can invest in a company under the portfolio investment route beyond 24 per cent of the paid up capital of the company with the approval of the general body of the shareholders by a special resolution. I propose that now FII portfolio investments will not be subject to the sectoral limits for foreign direct investment except in specified sectors. Guidelines in this regard will be issued separately.

Further measures have been taken to develop and deepen the capital market:

- Badla trading has been banned and practically all trading of stocks is now in the rolling settlement mode.
- Exchange traded derivatives have become wider with a greater choice of instruments and deeper in terms of liquidity.
- Individual stock options and index stock options were introduced in July 2001, and individual stock futures in November 2001.
- Foreign Institutional Investors (FIIs) are now permitted to trade in all stock traded derivative products within specified trading limits.
- An Investor Education and Protection Fund has been set up from October 1, 2001 to credit certain unclaimed and unpaid amounts.

A package of measures for reforming the US-64 scheme and the Unit Trust of India (UTI) has been announced which seeks to balance investors' interest while ensuring systemic safety. The long overdue reform for making US-64 NAV based has been implemented. Further legislative changes in the UTI Act to put in place other needed reform measures will be proposed during the year.

### Banking Sector

Reforms in the banking sector will be continued to enhance the efficiency and competitiveness of the sector. The following measures have either been taken or are being taken:

- Public sector banks recovered Rs. 12,860 crore in 2000-01 as compared with Rs. 9,883 crore in the previous year and net NPAs as percentage of net advances came down to 6.7 per cent as on March 31, 2001 as compared to 7.4 per cent in the previous year.
- 29 Debt Recovery Tribunals and 5 appellate tribunals have been set up. As on September 30, 2001 the DRTs had disposed of 18703 cases involving Rs. 14,026 crore. Recovery made was Rs. 3,527 crore.
- To help banks and financial institutions to make provisions for NPAs as required by the RBI,

additional fiscal relief is being offered, details of which will be given in part B of my speech. This will enable banks to review their lending rates.

- A new Bill on Banking Sector Reforms is proposed to be introduced in Parliament to strengthen creditor rights through foreclosure and enforcement of securities by banks and financial institutions. This Bill will also enable securitisation for money locked up in long term loans.
- A pilot Asset Reconstruction Company will be set up by June 30, 2002 with the participation of public and private sector banks, financial institutions and multilateral agencies. This company will initiate measures for taking over non performing assets in the banking sector and also develop a market for securitised loans.
- The Deposit Insurance Credit and Guarantee Corporation (DICGC) will be converted into the Bank Deposits Insurance Corporation (BDIC) to make it an effective instrument for dealing with depositors' risks and for dealing with distressed banks. Appropriate legislative changes will be proposed for this purpose.
- Reforms in the financial sector have posed new challenges for the development finance institutions (DFIs) like IDBI. It is proposed to make legislative changes to corporatise IDBI within the coming year to provide it appropriate flexibility. Meanwhile IDBI's tier one capital is being strengthened by conversion of existing IBRD and NIC (LTO) loans in to appropriate long term instruments.
- Consequent to certain amendments made in the year 2000 in the Companies Act, 1956, directors incur disqualification for election in the case of certain defaults by the company. It is proposed to exempt nominee directors of public financial institutions and banks from this provision.
- Three public sector banks had been classified as weak banks on the basis of criteria suggested by the Committee on Banking Sector Reforms in 1997-98. Two of these banks namely UCO Bank and United Bank of India have turned around and have started making profits. Though the Indian Bank has also shown considerable

improvement, its capital adequacy ratio remains deficient. A provision of Rs. 1300 crore is proposed for re-capitalisation of this bank, on the basis of a commitment to Government of India for implementing monitorable reform measures.

In the banking sector foreign banks are permitted to operate in India as fully owned branches with specific permission of the Reserve Bank of India. As recommended by the Committee on Banking Sector Reforms, it has now been decided to give an option to foreign banks to either operate as branches of their parent banks or to set up subsidiaries. A foreign bank will have to choose only one of the two options. Such subsidiaries will have to adhere to all banking regulations, including priority sector lending norms, applicable to other domestic banks. Necessary amendments will be proposed in the Banking Regulation Act 1949 to relax the maximum ceiling of voting rights of 10 per cent for such subsidiaries.

The cooperative credit structure, which is critical for the agriculture sector, has low capital adequacy and high NPAs, is in urgent need of reform. I had appointed a Committee under the then Deputy Governor of RBI to examine its functioning closely. The recommendations of this Committee have been discussed widely by Chief Ministers and in a joint committee of Cooperation Ministers under the chairmanship of my colleague, Shri Vikhe Patil. Reform measures such as the adoption of a Model Cooperative Act, removal of dual control between State Governments and the RBI, regular conduct of elections, larger stake of the members, professionalisation of management etc. have been recommended. The recapitalisation formula suggested is 60:40 between the Central and State Governments along with increases in share capital of members. States will have to consider and accept their funding share and implement the suggested measures for reform. Even though this is a state subject the Government of India will go out of its way to help in the process. To start the process I am making a token provision of Rs. 100 crore and depending on the pace of reform, provision of additional funds will be considered.

### Housing Finance

The initiatives taken in the housing finance area in the last four years have shown positive results. Total disbursement from housing finance institutions in 2000-01 was Rs. 26,300 crore, a growth of about 28 per cent in the year. This amount financed the construction of about 28 lakh houses, much higher than the annual target of 20

lakh houses. In the current year the growth rate is expected to be around 35 per cent. To further strengthen housing finance the following measures are being taken:

- Consequent to the amendment to the National Housing Bank Act, NHB has commenced securitisation of housing loans and is operationalising foreclosure of mortgages.
- The NHB will launch a Mortgage Credit Guarantee Scheme, which would be provided to all housing loans thereby fully protecting lenders against default. This will make housing credit more affordable thereby also increasing access to housing credit in rural areas.
- The target under the Golden Jubilee Rural Housing Finance Scheme is proposed to be increased to Rs. 2.25 lakh for 2002-03, up from 1.7 lakh in the current year. About 1 lakh units have already been financed up to December 2001.
- The allocation of the Indira Awas Yojana is being increased by 13 per cent to Rs. 1725 crore for 2002-03.

I will have more to say on housing in part B of any speech.

### Capital Account Liberalisation

Capital account convertibility has been on our agenda for quite some time. In view of the many disturbances that have taken place in international capital markets in recent years I propose to continue with our policy of liberalisation with caution. Accordingly, I propose to take the following steps to liberalise the capital account further:

- There will be full convertibility of deposit schemes for Non Resident Indians. The existing Foreign Currency Non-Resident (FCNR(B)) scheme and the Non-Resident External rupee (NRE) scheme will continue to be repatriable.
- The schemes which do not offer full convertibility to NRIs will be discontinued from April 1, 2002. The existing balances in the non-resident (non-repatriable) rupee accounts will be allowed to be credited on maturity to the convertible NRE account.
- NRIs will be free to repatriate in foreign exchange their current earnings in India such as

rent, dividend, pension, interest and the like based on appropriate certification.

- Indian companies wishing to invest abroad may now invest up to US \$ 100 million on an annual basis through the automatic route, up from the existing limit of US \$ 50 million.
- Indian companies making overseas investment in joint ventures abroad by market purchases may now do so without prior approval up to 50 per cent of their net worth, up from the current limit of 25 per cent.
- Corporates with proven track record will be allowed to contribute funds from their foreign exchange earnings for setting up chairs in educational institutions abroad and for other welfare measures, likely to benefit the community abroad, on a case by case basis by the RBI.
- Indian mutual funds will now be allowed to invest in rated securities in countries with fully convertible currencies, within the existing limits. Earlier such investment was only permitted in ADR/GDRs issued by Indian companies in overseas markets.
- Pre-payment of ECBs is now permissible to the extent of balances available in EEFC accounts, which are currently restricted to 50 per cent of export proceeds. To enable ECB holders to benefit from lower interest rates, utilisation of higher amounts from export proceeds will be considered by RBI.
- With a view to further liberalising the capital account transactions it is proposed to put the Foreign Currency Convertible Bond (FCCB) scheme under the automatic route upto US \$ 50 million.

The Reserve Bank of India will be issuing guidelines for each of these measures separately.

While liberalising the capital account is necessary we have to exercise careful vigilance in curbing illegal capital flows. Recent evidence indicates transfer of large sums of money through various channels in support of terrorist activities in the country. The Government, therefore, proposes to bring suitable legislation during the current session of Parliament to empower the enforcement agencies to arrest and prosecute the hawala operators/

money launderers suspected to be engaged in financial transactions linked with terrorist activities.

## STRUCTURAL REFORMS

### Administered Price Mechanism (APM) for Petroleum

As decided by the Government in November 1997 and reiterated by me last year, I am glad to announce the dismantling of the Administered Price Mechanism (APM) in the petroleum sector from April 1, 2002. As a result, the following measures are being taken:

- The pricing of petroleum products will become market determined.
- The Oil Pool Account will be dismantled on April 1, 2002 and the outstanding balances will be liquidated by issue of oil bonds to the concerned oil companies.
- Private companies will be permitted in distribution subject to specified guidelines.
- A Petroleum Regulatory Board will be set up to oversee the sector.
- Subsidies to refineries in the North-East will continue on a rationalised basis.
- Freight subsidies will continue to be provided for LPG and kerosene to far-flung areas
- As a result of the dismantling of APM, the price of diesel will come down by around 50 paise per litre and of petrol by around Re 1 per litre. These changes in prices will come into effect from March 1, 2002, initially as part of the Oil Pool Account.
- The 1997 Government decision on the dismantling of APM mandated the subsidy on LPG and kerosene oil to be reduced to 15% and 33% respectively by April 1, 2002. Accordingly, the price of LPG is being raised by about Rs. 40 per cylinder and of kerosene oil for PDS by about Rs. 1.50 per litre from March 1, 2002. These subsidies will be borne by the consolidated fund from April 1, 2002.
- The subsidies on LPG and kerosene will be on a specified flat rate basis from April 1, 2002. The retail prices will then vary as the price of crude oil changes in international markets.

- These subsidies will be phased out in the next 3 to 5 years.
- The post APM excise and customs duty changes will be spelt out in Part B of my speech. Since the subsidy burden will be borne by the Union budget from next year, the taxation measures have been designed to raise the required resources.

Further details of the dismantling of APM will be announced separately by my colleague, the Minister for Petroleum and Natural Gas.

### Industrial Restructuring

To deal with forces of competition, industrial and other companies require restructuring on a continuous basis. For this purpose it is essential to promote out of court mechanisms for timely and transparent corporate debt restructuring of viable entities, in addition to the use of legal avenues of financial restructuring. A Corporate Debt Restructuring (CDR) has already been set up. I have decided that a small group of experts under the Chairmanship of Deputy Governor, Reserve Bank of India will be set up to suggest measures to make its operation more efficient.

In Part B of my speech I will provide for specific fiscal measures for strengthening certain key industries including steel and textiles and other measures for improving the competitiveness of the manufacturing sector.

### Small Scale Industries

As Hon'ble Members are aware, small scale industries are now subject to increasing competition with the completion of trade liberalisation. A new approach to the promotion of small scale industries therefore, has already been adopted.

Adequate credit flow is essential for the small scale sector. The net bank credit outstanding to small scale industries increased from Rs. 45,789 crore on March 31, 2000 to Rs. 48,445 crore on March 31, 2001. In order to further increase the flow of credit:

- The limit for composite loans has been increased from Rs. 2 lakh to Rs. 5 lakh.
- 391 specialised branches of public sector banks have been opened for small scale industries as of September 30, 2001.

- The exemption limit for collateral security has been increased from Rs. 25,000 to Rs. 5 lakh. The project cost limit under the National Equity Fund has been increased from Rs. 25 lakh to Rs. 50 lakh.
- The extension of credit to SSI has already been facilitated through the Credit Guarantee Scheme and the Credit Linked Capital Subsidy Scheme for Technology Upgradation.
- Encouraged by the Kisan Credit Card Scheme, public sector banks have now decided to introduce a scheme called Laghu Udyami Credit Card (LUCC) Scheme for providing simplified and borrower friendly credit facilities to small businessmen, retail traders, artisans and, small entrepreneurs, professionals and other self employed persons, including those in the tiny sector.

Members will recall that last year I had announced the dereservation of 14 items in the footwear, leather goods and toy sectors. The Government has been engaged in discussions with stake holders in respect of certain other items in the reserved list. Over 50 items of knitwear, certain agricultural implements, auto components, some chemicals and drugs, and others will now be dereserved.

SHRI PRIYA RANJAN DASMUNSI (Raiganj)  
Wonderful. That is the end of this sector.

SHRI YASHWANT SINHA : My colleague, the Minister of Small Scale Industries will announce the details of these items separately.

### Exports

The Government is committed to provide all assistance to accelerate export growth. A key new initiative is the establishment of Special Economic Zones (SEZs). I will announce a comprehensive package for SEZs in Part B of my speech.

To provide incentives to State Governments for export promotion through the creation of new export promotion industrial parks and associated facilities, I propose to increase the outlay for the scheme from Rs. 97 crore this year to Rs. 330 crore for 2002-2003. Overall outlay for the Department of Commerce for the year 2002-03 has been increased by 55 per cent to Rs. 775 crore.

## HUMAN DEVELOPMENT

### Education

The 93rd amendment of the Constitution has made free and compulsory education for all children in the 6 to 14 age group a fundamental right. Necessary infrastructure for making this possible will be created. Accordingly, the plan allocation to the Department of Elementary Education and Literacy is being enhanced from Rs. 4,000 crore this year to Rs. 4,900 crore for 2002-03.

Last year I had announced a new comprehensive educational loan scheme to cover all courses in schools and colleges in India and abroad. The scheme has served the students well and loans amounting to about Rs. 670 crore have already been given to almost 50,000 students.

### Social Security

Last year I had mentioned that the Insurance Regulatory and Development Authority (IRDA) would be asked to provide a road map for a new pension scheme so that the unorganised sector is provided adequate social security coverage. IRDA has recommended a regulatory framework for setting up pension funds to enable individuals to subscribe on a defined contribution basis to obtain the benefit of pensions on their retirement. Action on these recommendations will be taken by June 30, 2002.

Access to good and responsive health care is still a distant dream for the majority of the rural population. An insurance scheme called "Janraksha" is being designed by the public sector insurance companies to provide protection to the needy population. With a payment of Re. 1 per day as insurance premium, a person will be entitled to indoor treatment up to Rs. 30,000 per year at selected and designated hospitals. Out patient treatment upto Rs. 2,000 per year will also be covered at designated clinics which would include civil hospitals, medical colleges, private trust hospitals and other NGO run institutions.

### Women and Children

The year 2001 was celebrated as the Women's Empowerment Year and several policy, legislative and programme initiatives have been launched to help in the empowerment of women. I am increasing the plan allocation for the Department of Women and Child Development by 33 per cent to Rs. 2200 crore.

In order to encourage the entry of large numbers of women into scientific professions, the government intends

to institute at least 100 scholarships a year to be provided by the Department of Science and Technology to women scientists and technologists.

Far too many children in our country continue to suffer from malnutrition. Accordingly, the Prime Minister announced a National Nutrition Mission in his Independence Day speech on August 15, 2001. Under this Mission food grains at subsidised rates would be made available to adolescent girls and expectant and nursing mothers belonging to below poverty line families through the ICDS structure.

### Indian System of Medicine

The National Institute of Siddha at Chennai is being provided Rs. 4 crore for commencing its activities. A National Ayurvedic Hospital will be set up at Delhi with private sector participation. I am further increasing the budgetary support for ISM next year by 25 per cent to Rs. 150 crore.

### Scheduled Castes and Scheduled Tribes

The allocation for the welfare and upliftment of Scheduled Castes in the Ministry of Social Justice and Empowerment has been increased from Rs. 792 crore this year to Rs. 879 crore in the coming year.

*[Translation]*

SHRI RAMDAS ATHAWALE (Pandharpur) : It should be more for SCs & STs.

*[English]*

SHRI YASHWANT SINHA : The Ministry of Tribal Welfare has launched a number of schemes to improve the social and economic life of scheduled tribes. In order to meet the requirements of various schemes such as scholarships and hostels for improved access to quality education, the establishment of Grain Banks, and other support schemes under the National Scheduled Tribes Finance and Development Corporation (NSTFDC), I have increased the plan outlay for tribal welfare by 21 per cent to Rs. 290 crore for 2002-03.

### Development of the North Eastern Region

I am glad to inform the House that during the current year an additional sum of Rs. 500 crore was provided to the North Eastern States from the Central Pool set up in 1998-1999. This is Rs. 187 crore more than last year. The provision for expenditure in North Eastern States out of the Central Plan of various Ministries has also been increased from Rs. 3,457 crore in the current year to about Rs. 5,016 crore next year.



## Science and Technology

The Plan allocation for the Department of Science and Technology is being raised to Rs. 625 crore in 2002-03, an increase of more than 52 per cent over the current year.

A fund for the improvement of Science & Technology (FIST) was established in 2000-01 for augmenting laboratory facilities in Universities. Encouraged by the enthusiastic response to this fund I propose to increase the allocation for this programme to Rs. 75 crore in 2002-03, an increase of almost 115 per cent. Resources from this fund can now also be used to augment library facilities in the Universities.

The National Innovation Foundation was set up in March 2000 with a corpus of Rs. 20 crore, in order to build a national register of outstanding traditional knowledge and grass root innovations. This initiative has shown good results. In the second annual campaign NIF has received more than 11,000 entries from all over the country, up from 948 entries in the first year. Encouraged by this enthusiastic response I propose to set up a micro venture capital fund for small innovations to be initiated by the Small Industries Development Bank of India (SIDBI), in cooperation with the National Innovation Foundation, to facilitate the transition of innovations into enterprises.

## Entertainment

India's global leadership in computer software must now be complemented by another area of our core competence, the vast terrain of the entertainment industry. Today, we are the world's largest producer of films; we have a rapidly expanding broadcasting sector; a huge reservoir of talent in music; and a promising potential to become the international hub for all types of inputs for the entertainment industry. Accordingly, the budgetary support for the Ministry of Information and Broadcasting is being increased by 22 per cent to Rs. 415 crore for 2002-03.

With the industry status to the entertainment sector brought into effect last year, banks and financial institutions have sanctioned more than Rs. 236 crore, so far, for film and TV software production. Good money will certainly lead to good films. Film exports have been roughly doubling every year, during the last 3 years. It is time we brought about a fiscal regime to usher in more "Khushi" and take away the remaining "Gham" from the entertainment industry.

"Filhal" I shall have more to say on this in Part 'B' of my speech.

## FISCAL CONSOLIDATION

In every budget speech I have, at the risk of irritating repetition, expressed my deep concern at the poor fiscal situation of the Central and State Governments. Reflecting this concern I had introduced in Parliament the Fiscal Responsibility and Budget Management Bill in December 2000. The recommendations of the Parliamentary Standing Committee of Finance are receiving our attention and I propose to bring the Bill for consideration in this august House within the current session.

I had proposed to reduce the estimated fiscal deficit of 5.1 per cent in RE 2000-2001 to 4.7 per cent of GDP in BE 2001-02. The industrial slowdown experienced in both 2000-01 and the current year has reflected itself in the much lower than expected revenue collections from customs duties, excise duties and corporate income tax. The Non-Plan expenditure, however, has been kept under strict check: as a consequence, Mr. Speaker, Sir, you will be pleased to hear that Non-Plan expenditure for the current year is lower by more than Rs. 10,000 crore over the budgeted amount. However, mindful of the industrial slowdown, and the need for continued public investment, Plan expenditure has not only been protected but is actually higher than BE. The GDP estimate for the year has also been lowered. As a result fiscal deficit is now expected to be 5.7 per cent of GDP in the current year.

Putting our fiscal house in order must remain our highest priority. We have to make every effort to contain non productive expenditure and make substantive improvements in our tax machinery so that revenue collections show higher buoyancy in coming years. I will shortly outline my plans in this regard in Part B of my speech.

The fastest increasing component of expenditure is that of subsidies. It is essential that they are reduced to a minimum over the next 3 to 5 years. However, access of the poor to adequate levels of nutrition through a well targetted PDS will have to be ensured along with employment generation programmes.

12.00 hrs.

## Expenditure Management

The success achieved in containing Non-Plan expenditure has encouraged me to deepen the efforts in this direction. The recommendations of the Expenditure Reforms Commission (ERC) provide a very useful

framework for immediate moderation in expenditure growth. The ERC completed its work in September 2001 and submitted 10 reports covering 36 Ministries/Departments that had a total sanctioned staff of 8.65 lakh. Of the identified surplus manpower of 42,200 in these Ministries/Departments, nearly 12,200 posts are expected to be abolished by the end of March 2002. The remaining reports are at different stages of consideration. The decision to limit fresh recruitment to 1 per cent of total civilian staff strength will continue to be implemented over the next 4 years. The availability of a VRS package that has now been approved will help this effort to reduce staff strength while ensuring adequate security to the affected employees.

We have made efforts to contain the fertiliser subsidy by plugging inefficiencies in the production system which were earlier passed on to the government by the producers and by periodical increases in the issue prices. The ERC has recommended that the Government should increase prices by 7 per cent every year and move towards decontrol over the next 5 years. Fertiliser prices have not been increased for the last two years. I propose a modest increase in the issue price of urea, DAP and MOP by about 5 per cent and to reduce the subsidy for SSP by Rs. 50 per tonne.

[Translation]

KUNWAR AKHILESH SINGH (Maharajganj U.P.) : This anti-farmer decision is being taken for protecting the interests of America. It is anti-rural and anti-poor Budget.

[English]

SHRI YASHWANT SINHA : The Prices of complex fertilisers will also be suitably modified. The Ministries of Agriculture and Chemicals and Fertilisers will notify the specific increases.

In a further move towards price and distribution control, the compulsory levy on sugar will be reduced from 15 to 10 per cent from March 1, 2002. Accordingly, the retail price of PDS sugar will be Rs. 13.50 per kg. from March 1, 2002.

Because of the rising cost of Postal Service, a modest increase in postal rates is being proposed.

#### Small Savings and Interest Rates

I had announced the setting up of an Expert Committee headed by Deputy Governor, RBI to suggest

rationalisation of administered interest rates. The Committee has given its report, which has been examined by the Government. Accordingly, I propose to take the following measures:

- Administered interest rates will now be benchmarked to the average annual yields of government securities of equivalent maturities in the secondary market. Accordingly, most administered interest rates are being reduced by 50 basis points from March 1, 2002. Such adjustments will henceforth be made annually on a non-discretionary automatic basis. The benefit of reduction in interest rates on small savings deposits will be fully passed on to the States.
- A corresponding reduction of 50 basis points will be made in the interest rate applicable to Government of India Relief Bonds. Further, a ceiling of Rs. 2 lakh per year is being put on investment in these bonds.
- The entire net proceeds of small savings will be transferred to State Governments beginning April 1, 2002, up from the current transfer of 80 per cent. Consequently, additional loan assistance of about Rs. 10,000 crore will be available to the States along with the benefits of a lower interest rate.
- State Governments will be enabled to pre-pay their high cost debt of the past from these additional resources which would be at a lower interest rate. Modalities of this pre-payment of small savings debt of State Government will be worked out in consultation with them and the Reserve Bank of India.
- The interest rate on the loans portion of Central assistance to State plans is being reduced by 50 basis points.
- Alignment of interest rates on GPF by the State Governments with the reduced GPF interest rates at the Centre will further reduce the interest burden of State Governments.
- Revisions are being made in the tax treatment of small savings, which will be outlined in Part B of my speech.

The implementation of this long sought reform in the treatment of small savings and administered interest rates is another step forward in the deregulation of interest rates in the economy that has been carried out in phases over the last 10 years. This should help in reducing the interest burden on the government and private sector alike in future.

### **Pension Reform**

The present pension scheme for Government employees casts an open-ended financial burden on the Government. I had announced the appointment of a High Level Expert Group to develop a new pension scheme, based on defined contributions, for new recruits entering government service. The Expert Group has now submitted its report to the Government. It has proposed a hybrid scheme that combines contributions from employees and the Union Government on matching basis, on the one hand, while committing to the employees a defined benefit as pension. The report is being considered by the Government and the new pension scheme for new recruits will be announced and implemented by June 1, 2002.

### **Privatization**

With the streamlined procedure for disinvestment and privatization, I am happy to report that the Government has now completed strategic sales in 7 public sector companies and some hotel properties of the Hotel Corporation of India (HCI) and the India Tourism Development Corporation (ITDC). The change in approach from the disinvestments of small lots of shares to strategic sales of blocks of shares to strategic investors has improved the price earning ratios obtained. We expect to complete the disinvestment in another 6 companies and the remaining hotels in HCI and ITDC this year. Disinvestment receipts for the present year are estimated at Rs. 5,000 crore excluding the special dividend from VSNL of Rs. 1,887 crore. Encouraged by these results, I am once again taking credit for a receipt of Rs. 12,000 crore from disinvestment next year.

### **Defence**

Modernisation and upgradation of our Defence preparedness is an area of highest national priority. I have made a provision of Rs. 65,000 crore for defence expenditure for next year. In case of need, I shall not hesitate to provide more funds for this purpose. As a

measure of welfare of the defence forces and their families, and, as announced by the Prime Minister in his Independence Day speech, a major programme of housing construction for defence personnel is also being taken up.

SHRI PRIYA RANJAN DASMUNSI (Raiganj) : That is good.

### **SHRI YASHWANT SINHA : State Fiscal Reforms**

The challenge of fiscal management is equally acute in the case of States. We have been working jointly with the States through the Fiscal Reforms Incentive Fund set up on the recommendations of the Eleventh Finance Commission. Some State governments have taken bold measures to bring down non-productive expenditure to improve their fiscal situation. 12 States have so far drawn up medium-term fiscal reform programmes in consultation with the Central Government in the current year and have been provided assistance from the Incentive Fund. The reform of small savings schemes together with interest rate reductions and debt swap facility that I have already mentioned will also help the States. It will be our joint endeavour to bring down the consolidated debt to GDP ratios to sustainable levels by 2005.

As I have mentioned earlier, we are now providing reform linked assistance to States for a number of sectors like APDRP, AIBP, URIF, RIDF for which a total amount of Rs. 12,300 crore has been provided. In addition, a lump-sum provision of Rs. 2,500 crore has been provided for policy reforms in sectors which are constraining growth and development. I am confident that with the joint efforts of Centre and the States we will be able to put in place programmes and policies which will remove barriers to growth, accelerate the development process and improve the quality of life of our people.

### **BUDGET ESTIMATES**

#### **Revised Estimates for 2001-2002**

The revised estimates for the current fiscal year show a decrease in expenditure of Rs. 10,787 crore as compared to the Budget estimates.

Net tax revenues for the Centre are estimated to be Rs. 1,42,348 crore compared to the Budget estimate of Rs. 1,63,031 crore, thereby reflecting a shortfall of Rs.

20,683 crore. The major shortfall is due to lower collection of Customs and Union Excise duties due mainly to the industrial slowdown. Non tax revenue is expected to be Rs. 70,224 crore, 1,510 crore more than the estimated level of Rs. 68,714 crore. However, disinvestment receipts, at Rs. 5000 crore are much lower than the Budget estimate of Rs. 12,000 crore.

### Budget Estimates for 2002-2003

In the budget estimates for 2002-2003, the total expenditure is estimated at Rs. 4,10,309 crore, of which Rs. 1,13,500 crore is for Plan and Rs. 2,96,809 crore for non-Plan.

### Plan Expenditure

The budget support for Central, State and UT Plans has been placed at Rs. 1,13,500 crore, an increase of Rs. 18,400 crore over Budget estimates 2001-2002. This amounts to an increase of 19.35 per cent over the last year, which is the highest increase in a decade. Gross budgetary support for the Central Plan is being enhanced from Rs. 60,276 crore in the revised estimates 2001-2002 to Rs. 66,871 crore in 2002-2003. Central Plan assistance to States and Union Territories in 2002-2003 is also proposed to be increased to Rs. 46,629 crore from Rs. 38,878 crore in the revised estimates 2001-2002. While the increase in Central Plan outlay is about 11 per cent, the increase in central assistance to state plans is nearly 20 per cent.

[Translation]

DR. RAGHUVANSH PRASAD SINGH (Vaishali) : What happened to the economic package for Bihar .(Interruptions) Scam is taking place in UTI, scams are taking place everywhere . . .(Interruptions)

MR. SPEAKER : Raghuvansh Prasad ji, what are you doing. Daily you disturb the entire House. It is not proper.

[English]

Please change your attitude otherwise I will have to take action against you.

[Translation]

What do you take this House for? What is this drama you are doing?

SHRI PRAKASH PARANJPE (Thane) : He is not

allowing us to listen. If he does not want to listen he may do so but why is he disturbing us by interrupting during the course of the speech.

[English]

MR. SPEAKER : You are also disturbing the House.

[Translation]

DR. RAGHUVANSH PRASAD SINGH : Who are you to say like this . . .(Interruptions)

[English]

SHRI SOMNATH CHATTERJEE (Bolgpur) Before sometime he was standing near the well of the House and now he is giving lectures.

[Translation]

SHRI PRAKASH PARANJPE : Who are you to say like this. . .(Interruptions)

MR. SPEAKER : Mr. Paranjpe , what are you saying, will you control the House.

[English]

The entire nation is watching as to how we are behaving in the House. You do not know how to behave in the House.

SHRI YASHWANT SINHA :

### Non Plan Expenditure

Non-Plan expenditure in 2002-2003 is estimated to be Rs. 2,96,809 crore compared to Rs. 2,65,282 crore in Revised estimates for 2001-2002. The increase in non-plan expenditure is mainly in interest payments (Rs. 10,133 crores), subsidies (Rs. 9,278 crore), defence (Rs. 8,000 crore) and grants to State Governments (Rs. 2,196 crore).

Sir, I now present my tax proposals.

I have formulated my tax proposals against the backdrop of the current economic slow-down. My tax proposals are intended to revive demand, promote investment, accelerate economic growth and enhance productivity. They are also aimed at widening the tax base, rationalization and simplification of tax structures and encouraging voluntary compliance.

I present my indirect tax proposals first.

Sir, in my earlier budgets I have made strenuous efforts to address the issues of cascading, distortions, anomalies and inequities in the commodity tax structure. I have achieved significant rationalization of tax structures relating to both excise and customs duties. The number of rates are few, and procedures more transparent than before. The service tax, though confined to limited number of services, has gained ground.

In 2000-2001, I had introduced the rate of 16% as the rate of Central Value Added Tax (CENVAT) in the excise duty structure. Last year, I had reduced the three rates of special excise duty to a single rate of 16%. This rationalization in the duty structure has considerably reduced disputes and litigation and the cost of compliance to the assessees. Above all, it has put in place a system, which is stable, just and rational. We only need to refine it further.

I propose to abolish the 16% special excise duty on a number of items. Henceforth, the special excise duty shall be confined to the following 8 items only:

Polyester Filament Yarn

Motor cars

Multi Utility Vehicles

Tyres for replacement

Aerated soft drinks and soft drink concentrates

Air conditioners

*Pan Masala, and*

Chewing Tobacco and miscellaneous tobacco preparations.

I propose to do away with the concessional rate of 8% excise duty applicable to LPG, kerosene, auto CNG and diesel engines upto 10 HP which will now attract the CENVAT rate of 16%.

Mr. Speaker Sir, the rates of excise duty have now been considerably moderated. However, several exemptions still continue. In my last budget I had imposed excise duty at a moderate rate of 4% on a few items. I propose to increase this rate from 4% to the next slab of 8% this year. Simultaneously, I propose to impose excise duty at 4% on a few more items, which have remained exempted far.

Cigars, cheroots and cigarillos of tobacco or tobacco substitutes which have been exempt so far shall attract 16% CENVAT.

In view of the abolition of Administered Price Mechanism on petroleum products and in order to provide for the subsidy on LPG and kerosene oil, I propose to make some changes in the duty structure of petroleum products. The rate of cess applicable to indigenous crude oil under the Oil Industry (Development) Act will be increased from Rs. 900 per metric tonne to Rs. 1800 per metric tonne with effect from 1st March 2002. I propose to reduce the *ad valorem* rate of excise duty applicable to motor spirit from 90% to 32%. However, I propose to impose on it a surcharge of six rupees per litre. But the surcharge on ethanol doped motor spirit will be five rupees and twenty five paise per litre.

Mr. Speaker, Sir, the Indian textile industry occupies an important place in our economy. It is the second largest provider of employment after agriculture. The Multi Fibre Agreement will be phased out by 2004. Domestic market has also been opened up now. Our textile industry has to prepare itself for the challenges ahead.

I have carved out a special package of incentives for the textile industry.

I propose to maintain the excise duty rates on yarns. At present, cotton hank yarn is exempt from excise duty but is being widely misused. In order to ensure that the benefit accrues only to the handloom weavers I propose to bring hank yarn within the net of excise duty at 8%, but at the same time, provide for appropriate subsidy on the price of hank yarn purchased by them. This will put an end to misuse and target the subsidy better. The Ministry of Textiles would announce the details of the subsidy scheme.

In order to enable the weavers to avail of CENVAT credit scheme, I propose to allow the weavers of grey fabrics to pay excise duty on an optional basis. I propose to extend a similar option to the knitting sector.

Mr. Speaker. Sir, in all humility, I can claim credit for introducing the CENVAT rate of 16% in the excise duty structure. However, in the case of textiles, I am making an exception and granting a remission of 4%. The rate of excise duty on fabrics, made ups and garments would be

12%. This special dispensation shall continue upto 28.2.2005. Industrial fabrics would however continue at 16%.

At present, hand processing of textile fabrics by independent processors is exempt from excise duty even if power is used in 12 specified processes in the case of cotton fabrics and 7 specified processes in the case of man made fabrics. I propose to confine this exemption to only 3 processes, namely, scouring, hydroextraction and calendering.

I propose to abolish the compounded level scheme for independent power processors as it is incongruous with the reduced rate of duty that I have proposed.

Handloom sector is not affected by my budget proposals. Excise duty exemption on handloom fabrics continues. I now propose to grant exemption to handloom garments also from excise duty subject to certification by Handloom Export Promotion Council.

In order to enable the textile industry to modernize itself and acquire new technology, I propose to exempt excise duty on automatic shuttleless looms. I also propose to exempt excise duty on specified processing machinery and specified silk reeling, weaving and twisting machinery. The customs duty on such machinery is also being proposed to be reduced from 25% to 10%. I also propose to exempt specified jute machinery from excise duty. I hope this package will enable the textile industry to face global competition.

My proposals include special dispensation of excise duty structure for the petroleum refineries located in the North East Region. With effect from 1st March 2002, the petroleum products produced by all these refineries shall be charged to excise duty at half of the normal rates of excise duty otherwise applicable to petroleum products.

Inland Air Travel Tax is exempted for air travel within the North Eastern States. I propose to extend this exemption on air travel to and from North Eastern States.

Tea industry is currently facing a number of problems in the domestic as well as international markets for a variety of reasons. In order to promote the interest of tea growers, I propose to reduce the excise duty on tea from Rs. 2 per kg to Re.1 per kg.

We have to face the menace of HIV-AIDS with determination. I propose to exempt specified anti-AIDS drugs from excise duty with effect from 1st March 2002.

Specified cold chain equipment are exempt from excise duty. I propose to add three more equipment to this list to promote the preservation of fruits and vegetables.

The excise duty exemption scheme for the small-scale sector is applicable to granite. In view of the fact that it is not available to marble, I propose to withdraw this exemption from granite also.

The scheme of excise duty extension based on Maximum Retail Price of goods has resolved valuation disputes in a dramatic way. I propose to extend this scheme to 9 more categories of items this year, thus raising the number to 92 categories of items.

Mr. Speaker, Sir the justification of taxing more services does not require any elaboration. This year, I propose to extend the service tax to the following services:

- Life insurance, including insurance auxiliary services relating to life insurance
- Inland cargo handling
- Storage and warehousing services (except for agriculture produce and cold storages)
- Even management
- Rail travel agents
- Health Clubs and Fitness Centres
- Beauty parlours
- Fashion designers
- Cable operators
- Dry cleaning services

Service tax is applicable to specified services provided by banks and non-banking financial companies. I propose to extend the service tax to corporate bodies that provide similar services.

The tax on these services shall come into force from a notified date.

Our tourism industry has been adversely affected by recent events. In December 2001, I had announced

exemption from service tax on the services provided by hotels. The exemption expires on 31st March 2002. I propose to extend this exemption for one more year upto 31st March 2003.

Sir, I now present my proposals relating to customs duties.

The House may recall that, in my last budget, I had announced that I would move progressively to reduce the peak rate of customs duty to 20% within three years. I had also said that the modalities for this would be worked out in time for the next budget. I had accordingly set up an Inter-Ministerial Working Group to recommend the modalities. The Group has suggested a road map for this starting with this year's budget. After careful consideration of the Group's report, I have decided that, by the year 2004-05, there would be only two basic rates of customs duties, namely, 10% covering generally raw materials, intermediates and components and 20% covering generally final products. The existing rates would be adjusted and subsumed in these two basic rates with some exceptions on account of WTO bindings or higher tariffs for agricultural products. In accordance with the road map, I propose to reduce the peak rate from 35% to 30% this year. I also propose to make some changes to take care of some current problems.

Our steel industry has been affected by slowdown in demand and has suffered large losses. In order to reduce its cost of production I propose to lower customs duty on a number of refractory raw materials by 10%. These include natural graphite powder, silicon metal, sintered alumina, fused zirconia and boron carbide. I also propose to reduce the duty on graphite electrodes of above 24 inches diameter from 25% to 15%.

Ships imported for breaking are charged to customs duty at 5% along with CVD and special additional duty. I propose to revise this by increasing the basic duty on ships for breaking from 5% to 15% and exempting them from CVD and special additional duty. This is to reduce the disparity between rolled products produced by the steel plants and cheaper products produced from ship breaking.

The steel industry is troubled by imports of seconds and defectives at cheaper prices. In order to address their concern I propose to increase the basic customs duty on seconds and defectives of steel to the bound rate of 40%.

Non-ferrous metals are used for large number of applications by different segments of industry. I propose to reduce the customs duty on copper, zinc and lead from 35% to 25% and on aluminium and tin from 25% to 15%.

In the EXIM policy for the year 2000-2001, my colleague, the Minister of Commerce and Industry announced the scheme of setting up Special Economic Zones that are intended to provide comprehensive facilities at one place for export production. Special Economic Zones would be entitled to procure duty free equipment, raw materials, components, etc. whether imported or purchased locally. The benefit of such exemption shall be applicable to both the developers of Special Economic Zones as well as the units located therein.

In order to encourage development of world class infrastructure facilities, I propose to reduce the customs duty on specified equipment for Ports and Airports to 10%.

In view of the difficulties being faced by the civil aviation sector, I propose to exempt duty on aeroplanes, helicopters, gliders, simulators of aeroplanes and their parts and raw materials.

Mr. Speaker, Sir, India is signatory to the Information Technology Agreement. The House may recall that, in 1998, I had announced that zero duty regime on IT products would be preponed and implemented by 2003. However, the local manufacturers have urged me strongly that it may be made effective only from the year 2005. This would give them an opportunity to gear up to meet the challenge of international competition. I have decided to accept their demand. As a further measure of assistance to indigenous industry, I propose to reduce the customs duty on a number of hardware inputs to 5% and on certain capital goods to 15%. The duty on certain items would be reduced to 10% or 5% as per the WTO binding.

The use of cellular phones is increasing by leaps and bounds but import through unauthorized channels is a matter of concern. I therefore, propose to exempt cellular phones and pagers from CVD. The basic customs duty is, however, being increased from 5% to 10%.

Sir, I have repeatedly assured the House that our customs tariffs would be pegged at appropriate levels to protect the interest of the farmers. In my last budget I had increased the customs duty on tea, coffee, copra, coconut

and desiccated coconut to 70%. This year, I propose to increase the customs duty on tea and coffee to 100% and on natural rubber, poppy seeds, pepper, cloves and cardamom to 70%. I also propose to increase the duty on pulses from 5% to 10%.

I propose to reduce the customs duty on agricultural machinery and implements from 25% to 15% to encourage our farmers to acquire new and efficient technology.

A number of drugs are exempt from customs duty. I propose to include more drugs used for treatment of cancer and some other critical diseases in the list of fully exempted drugs. Vaccine for immunisation against Japanese Encephalitis shall also be exempt from customs duty. It has been reported that certain drugs that are presently exempted from customs duty but are now being made indigenously. In order to provide reasonable incentive to the domestic manufacturers of these drugs, I propose to impose a basic customs duty of 5% on these drugs.

India has a large number of diabetic patients. They have to undergo frequent blood sugar tests. In order to provide some relief to them, I propose to reduce the customs duty on Glucometers and test strips from 25% to 10%. Sir, incidentally, I am not a diabetic patient.

As a measure of rationalization and removal of anomaly I propose to reduce the customs duty on non-PDS kerosene from 35% to 20% and increase the customs duty on kerosene sold under the PDS scheme from 5% to 10%.

In order to promote interest in science, I propose to reduce the customs duty on planetarium equipments, parts and accessories to 15% and also exempt them from CVD and special additional duty of customs.

India has the technical capability to become an uplinking hub for television channels for the SAARC countries. In order to promote state-of-the-art uplinking facilities at competitive costs, I propose to reduce customs duty on certain earth station equipment and studio equipment from 35% to 25%.

I propose to reduce the customs duty on cement and clinkers from 25% to 20%. This should help in keeping the domestic prices under check.

The customs duty on imported liquors is bound at

182% for the current year under the WTO. Accordingly, I propose to reduce the customs duty on these items from 210% to 182%. I also propose to rationalize the rates of CVD applicable to liquors and wines to 75% up from 50%.

Passengers returning from abroad on transfer of residence are allowed certain items of personal use on payment of customs duty at a flat rate of 35%. I propose to reduce this rate to 30% and also add a few more items like lap top computers, portable photocopy machines, digital video disc players, video cassette disc players in the eligible list of items. The overall limit of transfer of residence is also being raised from Rs. 1.5 lakh to Rs. 5 lakh.

I propose to impose nominal customs duty of 5% on some of the items that are exempt at present. I also propose to impose special additional duty on certain other items that are currently subjected to 5% customs duty.

I have proposed a few other changes that are of a minor nature. I have also proposed some legislative changes with regard to customs, excise and service tax laws that are contained in the Finance Bill. I do not wish to take the time of the House in elaborating on them in detail.

Mr. Speaker, Sir, the customs and excise duty structures have been greatly simplified in the past few years. With the changes that I have proposed the revenue from 16% CENVAT will be more than 85% of the total *ad valorem* duties. In the next two years it can be reduced to one, namely 16%. The customs tariff will also comprise of only two basic rates in three years' time.

In my previous budgets, I have also made considerable efforts to simplify procedures. However, the task is not yet complete. Our tax administration needs to take full advantage of information technology. Our tax systems need to encourage voluntary compliance, provide efficient service to the taxpayers, eliminate unproductive work and enhance efficiency. The discretionary powers need to be replaced by rule-based mechanism. All these aspects of tax administration deserve to be examined in their entirety. I propose to set up an Expert Committee to make a comprehensive study of these aspects.

My proposals on the excise side are estimated to result in a revenue gain of Rs. 6700 crore in a year. On the customs side my proposals are estimated to result in



a revenue loss of Rs. 2200 crore. However, I anticipate buoyancy in indirect tax revenue and estimate that the total collection next year would be Rs. 1,43,702 crore.

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

I now turn to Direct Taxes.

Personal Income tax rates have been at 10%, 20% and 30% and corporation tax at 35% for several years. They are reasonable and therefore, I have left them unchanged in my last four budgets. I do not propose to change them this year also.

At the same time, it is important to recognise the need for specific interventions to provide a stimulus for industrial growth. I outline these now.

I have already mentioned the need to provide incentives for fresh investments in the industrial sector. To give impetus to such investment, I propose to allow additional depreciation at the rate of 15% on new plant and machinery acquired on or after 1st April, 2002 for setting up a new industrial unit, or for expanding the installed capacity of existing units by at least 25%.

There is disparity between the rates of Corporation tax applicable to foreign companies and domestic companies. This disparity arose in the past partly due to certain levies like surcharge being applicable to domestic companies but not to foreign companies. To correct this, I propose to reduce the rate applicable to foreign companies from 48% to 40%.

The small-scale industry sector has been making an important contribution to economic growth, and deserves continued support. In order to enable the Small Industries Development Bank of India (SIDBI) to augment its resources and provide cheaper credit to the small scale sector, I propose to allow capital gains exemption under section 54EC of the Income-tax Act to amounts invested in bonds issued by SIDBI.

In my Budget for 2000-2001, I had announced the setting up of a Credit Guarantee scheme for small-scale industries. Accordingly, the Credit Guarantee Fund Trust has been set up. I propose to grant full exemption from tax to the income of this Trust.

Continuing the thrust given to the housing sector over the last four years, I propose to allow the deduction for interest payable on housing loans for self-occupied houses even where such houses are acquired or constructed after 31st March 2003, as long as the acquisition or construction is completed within three years from the end of the financial year in which the loan was taken. For giving a further impetus to investment in the housing sector, I propose to extend the capital gains exemption provided in section 54EC of the Income-tax Act to bonds issued by the National Housing Bank.

The shipping industry in India is internationally competitive and is capable of further growth. In my Budget for 2000-2001, I had provided for a deduction of the entire profits of a shipping company if the amount deducted was kept in a reserve for purchase of new ships. However, the aggregate of the amounts that can be transferred to such reserve is limited to twice the amount of the paid up share capital of the company. I propose to extend it to cover share premium reserve and general reserve also. This reserve will not be considered while computing the book profits and shipping companies would thus be out of the purview of minimum alternate tax (MAT).

Presently, banks are allowed to deduct upto 5% of their total income against provisions made by them for bad and doubtful debts. In order to strengthen the financial position of banks I propose to increase this allowance to 7.5% of the total income. Further, in my budget for the year 1999-2000, I had granted an option to banks to deduct upto 5% of their NPAs falling in the category of loss or doubtful assets as on the last day of the accounting year. I propose to enhance this option to 10%, and also allow a similar option of deduction upto 10% of loss or doubtful assets of public financial institutions.

There has been a persistent demand that the benefit of carry forward and set off of past losses in cases of mergers of companies owning industrial undertakings, should be extended to more sectors. The telecommunication sector, in particular, is undergoing a phase of rapid consolidation and expansion. With a view to encourage its growth, I propose to extend this benefit to companies providing telecom services and eligible for deduction under section 80-IA. I also propose to constitute an expert group to examine the extension of this benefit to other companies in the services sector, including the financial services sector.

In order to provide further fiscal relief to the tourism sector, I propose to take the following measures:-

- \* Expenditure Tax on hotels will, henceforth, apply only to room charges, and will be payable only where such charges are Rs. 3,000 or more per day, as against the existing threshold of Rs. 2000 per day.
- \* The deduction available under section 80HHD of the Income-tax Act in respect of foreign exchange earnings of hotels or tour operators will be enhanced to bring it in line with the deduction available to exporters under section 80 HHC.
- \* A deduction of 50% of the profits earned by units setting up and operating large convention centres will be allowed for 5 years under section 80-IB.

I have emphasised the importance of the entertainment industry in Part A of my speech. To give a further boost to this fast-growing sector, I propose to allow, for the next five years, a deduction of 50% of the profits earned by units constructing and operating multiplex theatres in non-metropolitan towns.

As a measure for protection and regeneration of our environment, I propose to provide for an incentive by way of tax deduction under section 35 AC of the Income-tax Act in respect of amounts paid to a company or institution approved by the National Committee for Social and Economic Welfare, for carrying out projects of softwood plantation on degraded non-forest land. A deduction under this section will also be available in respect of payments towards conservation of natural resources and afforestation.

Last year, for ensuring a degree of transparency in the affairs of charitable and religious trusts as well as certain other institutions claiming exemption under section 10(23C), I had introduced provisions requiring them to publish their accounts in a local newspaper, if their total receipts during a year exceeded Rs. 1 crore. I have received a large number of representations pointing out the possibility of misuse of such information by anti-social elements. In view of these representations, I propose to delete this requirement. I further propose to rationalise certain provisions relating to these trusts and institutions so as to allow the accumulation of any part of their income only upto a maximum period of five years and to clarify that inter-trust donations may only be made either from the corpus or from the current year's income.

Following the Gujarat earthquake last year, I had granted a 100% tax deduction to donations made to certain approved charitable trusts and institutions that were to be applied before 31st March 2002 in relief work. As such relief work is still going on in many areas, I propose to extend the terminal date for utilisation of such donations from 31st March 2002 to 31st March 2003.

Last year, I had rationalised the rules for valuation of perquisites on the basis of their cost to the employer, except in respect of houses and cars where different criteria are adopted for simplicity. To relieve the burden on lower salaried employees, I propose to provide that no perquisites will be assessed for the assessment year 2002-2003 in the case of employees whose taxable salary, excluding perquisites, is upto Rs.1,00,000. For subsequent years, I propose to give an option to the employer to pay the tax on perquisites on behalf of the employees.

Under section 89 of the Income-tax Act, a tax relief is provided in case of additional tax burden imposed in any one year due to receipt of arrears of salary. As a welfare measure, I propose to allow this relief also in cases where family pension is received in arrears.

In continuation with the taxpayer friendly measures brought about by me in my earlier Budgets, I propose to abolish the provisions of Chapter XXC of the Income-tax Act, which require a clearance to be obtained from the Appropriate Authority before registering a transfer of an immovable property.

Sir, some of the exemptions and deductions currently provided in the Income tax Act have become redundant and are not in harmony with the moderate tax regime that we have in India. The Advisory Group on Tax Policy and tax Administration for the 10th Plan has recommended deletion of a number of such exemptions. I have carefully examined each recommendation of the Group and have come to the conclusion that some of these exemptions are indeed unnecessary. I, therefore, propose to withdraw or discontinue the exemptions, which are not required any longer.

The Advisory Group has also recommended deletion of various exemptions granted to incomes of approved or notified bodies or institutions, including educational and medical institutions. I do not think that the exemptions allowed to these institutions and bodies, which are fulfilling social objectives, should be withdrawn. However, I propose to require all such bodies and institutions to file returns

of income every year so as to enable a periodical verification of whether the prescribed conditions, which primarily relate to application of the income, are being fulfilled and also to enable the prescribed authority to withdraw the approval or notification of such entities if they are found to have violated any such conditions.

Last year, I had withdrawn the tax-exemption allowed to income earned by NABARD, National Housing Bank and SIDBI, since these institutions have come of age and are working on commercial lines. For the same reasons, I propose to withdraw this year the exemption allowed to income of the National Dairy Development Board, Prasar Bharati and the Oil Industry Development Board.

Various amendments made over the years in the rules relating to depreciation have given rise to a plethora of such rates for different types of assets. The relevance and the need to continue with these rates, and whether they should be scaled down to a maximum rate of 60%, should be a matter for open discussion. The relevant details will be put up on the website of the Finance Ministry. After taking into account the views expressed, a revised schedule of depreciation rates will be notified.

Under the present system of taxation of dividends and income from units, the company or the mutual fund pays a 10% tax and the income is exempt in the hands of the recipient. Such a system not only taxes income in the hands of a person to whom it does not belong; it also militates against the pass-through status which is the very essence of a mutual fund. There is also an inherent inequity in the present system, which allows persons in the high-income groups to be taxed at much lower rates than the rates applicable to them. These issues have been troubling me over the past four years and I am now convinced that the existing system must go. I, therefore, propose to abolish the distribution tax of 10% on companies and mutual funds on the dividend or income distributed by them. Such income will henceforth be taxed in the hands of the recipients at the rates applicable to them, and will be subject to tax deduction at source at the rate of 10%. In order to avoid a cascading effect, companies receiving such income will be entitled to claim a deduction for the amount in turn distributed by them as dividends. To continue the support given by me to equity oriented funds of the UTI and other mutual funds, the income received during the financial year 2002-2003 by unit holders of such funds will be taxed only at 10% as at present.

A tax rebate of 20% of the amount invested in certain instruments specified in section 88 of the Income-tax Act is presently allowable to all individuals and HUFs, as an incentive for retaining a part of their earnings in the form of savings. Taxpayers in the higher tax brackets, however, do not require fiscal incentives to save through the various designated instruments. I therefore propose to allow the rebate at the existing rate of 20% only to persons having taxable income upto Rs. 1,50,000. Persons having taxable income between Rs. 1,50,000 and Rs. 5 lakhs will henceforth get a rebate of only 10% of the amount invested and no rebate will be allowed where taxable income exceeds Rs. 5 lakhs. The special rebate of 30% for persons having taxable salary income upto Rs. 1 lakh will, however, continue. Further, while the existing limits on the qualifying amounts of investment will remain, I propose to provide a clarification in the law that the rebate will be allowed on investments made at any time during the year, as long as the amount invested is less than the taxable income of the year.

Presently, tax exemption is available to certain categories of employees receiving amounts upto Rs. 5 lakhs as VRS compensation. I propose to extend this exemption to employees of certain institutions of national or State-level importance to be notified in this behalf.

I am also making some procedural changes which are included in the Finance Bill

A Scheme called "Sampark" is being launched by the Income Tax Department, which will enable taxpayers to obtain information and forms through the Internet. User-friendly software will be made available by the Department to enable taxpayers to prepare their returns of income.

Effective use of information technology will depend critically on strict compliance with the requirements relating to Permanent Account Number (PAN). I propose to make a specific provision in the Income-tax Act for imposing a penalty of Rs. 10,000 in all cases where a false PAN is quoted in documents relating to specified transactions.

In 1998, I had prescribed certain high-value transactions such as purchase or sale of motorcars and expenditure incurred in hotels and restaurants, in which the permanent account number is to be compulsorily quoted. I propose to extend this list of transactions provided in rule 114B of the Income-tax Rules to include expenditure exceeding Rs. 25,000 incurred in cash on foreign travel, purchase of bank drafts exceeding

Rs. 50,000 in cash and making cash deposits exceeding Rs. 50,000 in any bank account. I further propose to introduce rules to provide that any transaction specified in rule 114B which is incurred in cash must be reported within a certain period to the Income-tax Department.

13.00 hrs.

Sir, I have already stated that national security is an overriding concern. Its cost has to be shared by all of us. I therefore propose to impose a modest surcharge of 5% across-the-board on all categories of taxpayers, except individuals and Hindu Undivided Families having total income upto Rs. 60,000. The 2% surcharge imposed last year in the wake of the Gujarat Earthquake is being abolished and hence the net additional impact would be only 3%. I also propose to restrict the 100% deduction of export profits allowed to certain units under sections 10A and 10B of the Income-tax Act to a 90% deduction for the assessment year 2003-2004.

The sum up, my proposals made in this Budget on the Direct Taxes will result in a revenue gain of Rs. 6,000 crore, including the component of surcharge of Rs. 2,750 crore. I estimate that the direct tax revenue in 2002-2003 would be Rs. 91,585 crore.

Mr. Speaker, Sir with these proposals I estimate total tax revenue receipts for the Centre at Rs. 1,72,965 crore and the fiscal deficit at Rs. 1,35,524 crore or 5.3% of GDP.

Mr. Speaker, Sir, this is a budget for consolidating, widening and deepening the reform process. This is a budget devoted to development. This is a budget to further promote partnership with the states for a better tomorrow for the people of India.

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

13.02 hrs.

[English]

#### FINANCE BILL, 2002\*

MR. SPEAKER : The Minister may now move for leave to introduce the Finance Bill, 2002.

\*Published in Gazette of India, Extraordinary Part-II Section 2 dated 28.2.2002.

SHRI YASHWANT SINHA : I beg to move for leave to introduce a Bill to give effect to the financial proposals of the Central Government for the financial year 2002-2003.

MR. SPEAKER : The question is :

"That leave be granted to introduce a Bill to give effect to the financial proposals of the Central Government for the financial year 2002-2003"

*The motion was adopted.*

SHRI YASHWANT SINHA : I introduce\*\* the Finance Bill.

MR. SPEAKER : The Finance Bill has been introduced.

13.05 hrs.

[English]

#### RE : SITUATION ARISING OUT OF DEATHS OF SEVERAL PASSENGERS DUE TO FIRE IN SABARMATI EXPRESS

MR. SPEAKER : Mr. Home Minister, would you like to make a statement ?

*(Interruptions)*

MR. SPEAKER : You can make a brief statement straightaway.

SHRI PRIYA RANJAN DASMUNSI (Raigarh) : Sir, we only want to hear the Minister. *(Interruptions)*

[Translation]

SHRI RAMJI LAL SUMAN (Ferozabad) : The Minister of Home Affairs should give statement regarding the Godhra incidents.

[English]

MR. SPEAKER : That is why I asked the Home Minister to make a statement

*(Interruptions)*

\*\*Introduced with the recommendation of the President

MR. SPEAKER : Shri Vijay Kumar Malhotra.

SHRI SOMNATH CHATTERJEE (Bolpur) : We said that we wanted a statement by the Home Minister. . . (Interruptions) What we had apprehended has happened. . . (Interruptions)

MR. SPEAKER : Shri Shivraj Patil, if I allow you, I have to allow two-three other people because they have given the notices.

(Interruptions)

SHRI SHIVRAJ V. PATIL (Latur) : Mr. Speaker, Sir, . (Interruptions) the situation has gone out of control there. Police has not been able to control. . (Interruptions)

MR. SPEAKER : Shivrajji, I have received two-three notices. If you want to say something, I can call you only after calling them.

SHRIMATI SONIA GANDHI (Amethi) : Mr. Speaker, Sir, we have just got news that things are getting out of control in Gujarat. We demand a statement by the Home Minister. . (Interruptions)

MR. SPEAKER : The Minister wants to make a statement.

(Interruptions)

MR. SPEAKER : Hon. Members, please understand. I have received two notices, one from Dr. Vijay Kumar Malhotra and the other from Shrimati Bhavna Chikhalia. Before the hon. Minister's reply, they want to speak.

(Interruptions)

SHRI SOMNATH CHATTERJEE : Because of the seriousness of the situation in the country, we want a statement from the Home Minister. . (Interruptions)

MR. SPEAKER : All right, let the hon. Minister make a statement now.

(Interruptions)

[Translation]

THE MINISTER OF HOME AFFAIRS (SHRI L.K. ADVANI) : Mr. Speaker, Sir, yesterday in the morning when Sabarmati Express covered nearly one km after crossing Godhra station a horrible incident took place about which

several Members have expressed their grief before the presentation of the Budget in the morning and at that time hon'ble Speaker has told the Members that they would be given chance to express their views regarding the incident after presentation of the Budget. . (Interruptions) Therefore, I think that they would get chance. Thereafter on this subject I will. . (Interruptions) You will appreciate that I am continuously in contact with the Government of Gujarat and the Chief Minister of the State since I have received the information of the incident. So I would certainly like to share some of the information regarding the incident with you. However, if you want to hold discussion and question answer session on this issue then I will be able to give full statement regarding this tomorrow only. . (Interruptions) You will agree with me that since that was the day allotted for the budget presentation and normally no other subject is taken up that day however this issue is very serious. . (Interruptions)

[English]

MR. SPEAKER : Hon. Members, please take your seats.

(Interruptions)

[Translation]

SHRI L.K. ADVANI : Normally even after the presentation of the Budget no other issue is permitted to be raised however it is a very serious incident in which 55 persons have been killed including 25 women and 14 children. . (Interruptions)

KUNWAR AKHILESH SINGH (Maharajganj, U.P.) : Mr. Speaker, Sir, the Chief Minister of Gujarat should resign. . (Interruptions) The Government should resign. Due to the wrong policies of the Government such incidents are occurring in the country. . (Interruptions) The Government should resign. . (Interruptions) The Minister of Home Affairs should step down. . (Interruptions)

MR. SPEAKER : What is going on ?

(Interruptions)

[English]

MR. SPEAKER : Kunwar Akhilesh Singh, please take your seat.

(Interruptions)

[Translation]

KUNWAR AKHILESH SINGH : Mr. Speaker, Sir, my submission is that the entire nation is passing through a crisis phase. . . (Interruptions)

MR. SPEAKER : Shri Akhilesh ji what are you doing? You please take your seat. The issue is so serious yet you are behaving like this ?

(Interruptions)

SHRI L.K. ADVANI : The Gujarat Government has conveyed to me that they have ordered for the court inquiry regarding the incident and the inquiry will be conducted by a retired Judge of High Court. . . (Interruptions) We on our behalf. . . (Interruptions) As far I know 40 persons have been arrested in this connection and the Central Government and the State Government are trying their best to find out the culprits of the incident. Whether only some local elements are behind the incident or there are some other aspects of the incident also ? We are conducting inquiry in this regard. So Mr. Speaker, Sir, I have requested you. . . (Interruptions)

[English]

MR. SPEAKER : Hon. Members, please take your seat. Take this issue seriously.

[Translation]

SHRI L.K. ADVANI : The moment I got information regarding the incident that I had become apprehensive about the strong reaction of the incident as the matter is very serious. That is why I immediately instructed all the State Governments to take all necessary steps to maintain law and order situation after the Godhra incidents so that communal tension may not build up. However, inspite of this some incidents happened in Ahmedabad, Anand and Baroda yesterday in the evening. Total four persons have been killed in these incidents. If you permit me I will collect all information regarding the different aspects of the incidents and will give statement in the House. Today I would like to submit that such incidents happen in a long intervals, however I do not recall such tragic incident in the past. . . (Interruptions)

[English]

MR. SPEAKER : Nothing should go on record.

(Interruptions)

MR. SPEAKER : No, he has not completed. Please take your seat. He has to complete his statement.

(Interruptions)

[Translation]

SHRI L.K. ADVANI : I understand the feeling of entire House that guilty persons involved in this heinous crime must be punished. At the same time I would like to submit that the Chief Minister of the State himself has visited the affected area. Having gone there he himself. . . (Interruptions)

[English]

MR. SPEAKER : Nothing should go on record except the statement of the Minister.

(Interruptions)

MR. SPEAKER : Please take your seats.

(Interruptions)

MR. SPEAKER : Shri Anant Geete, please, no. Take your seat.

(Interruptions)

MR. SPEAKER : It is very very unfortunate that this is going on like this in the House.

(Interruptions)

MR. SPEAKER : Shri Katiyar, please take your seat.

(Interruptions)

[Translation]

SHRI L.K. ADVANI : Mr. Speaker, Sir, there may not be two different opinion in this matter. This incident can not be condemned in words.

[English]

No words can be too strong to condemn an outrage of this kind.

[Translation]

So I do not understand why such things are been propagated. The State Government is vigilant about both these things.

On the one hand the guilty persons involved in Godhra incidents should be punished and on the other hand measures should be adopted to check the communal tension caused by this incident so as to maintain peace and harmony. The State Government is trying to do both these things. Simultaneously, I would like to submit that the communal tension may not escalate due to the reaction to the Godhra incident and peace may be maintained. I would like that the people of the entire country irrespective of religious faith should condemn Godhra incident. . . (Interruptions) It will not be of any help what you are telling here. I feel that everyone will take the same stand in this regard. . . (Interruptions) I have given you the figure of the people who have been killed. Besides, as per my information 43 people were injured including nine women, three children and thirty one men. Besides, tomorrow, I will provide the complete details to the House about the arrangements made and the measures being taken by the Government in this regard. Meanwhile efforts are being made by the Central Government and the State Government to find out the exact reasons of the incidents as it is a matter of concern. Efforts will be made to ascertain whether some one is trying to take advantage of the prevailing atmosphere of the country? All these aspects will be investigated and the information collecting in this matter would be provided to the House. But I would certainly like to submit that the reaction and the discontent of the Hon'ble Members are quite natural. That is why there was delay in the presentation of the budget. I am obliged to the

Speaker that by passing the tradition he gave opportunity to the hon'ble Members and me to express their views on this issue. . . (Interruptions)

[English]

SHRI SHIVRAJ V. PATIL : Immediately some action has to be taken to see that the situation in Gujarat does not go out of control. Our information is that the police has not been able to control it. . . (Interruptions) We are not objecting to the Home Minister making a Statement tomorrow. What I am stating is, the situation in Gujarat is going out of control. The police is not able to control the situation. If that is true, some action has to be taken. We want an assurance from the Government. . . (Interruptions)

SHRI L.K. ADVANI : All steps will be taken in this regard. As I have said, I am in touch with the Gujarat Government. We shall see that peace and communal harmony is maintained there.

MR. SPEAKER : The House stands adjourned to meet tomorrow at 11 A.M.

13.18 hrs.

*The Lok Sabha then adjourned till Eleven  
of the Clock on Friday, March 1, 2002/  
Phalguna 10, 1923 (Saka).*

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Published under Rules 379 and 382 of the Rules of Procedure and Conduct of Business in Lok Sabha  
(Ninth Edition) and Printed by The Indian Press, G.T. Karnal Road, Delhi-110033.

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