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PUBLIC FINANCE

The Budget for 2000-2001 was formulated in the backdrop of a series of exceptional exogenous events such as 50 day war in Kashmir, long months of political uncertainty before the general election, the super cyclone in Orissa, a somewhat weak monsoon, a near tripling of world oil prices and the continued fragility in world economic recovery. These developments led to an unanticipated expenditure on national defence, elections and the super cyclone during 1999-2000. Furthermore, the residual impact of the Fifth Central Pay Commission, the need for special fiscal assistance to the States combined with shortfalls in receipts from disinvesment and revenue exacerbated the fiscal deficit during 1999-2000. As a proportion to GDP, the Centre's gross fiscal deficit (exclusive of States' & UT's share of small savings) estimated at 5.6 per cent in the revised estimates for 1999-2000 now stands at 5.5 per cent on the basis of provisional[1] and unaudited figures. The Budget for 2000-2001 envisaged a fiscal deficit target of 5.1 per cent of the GDP.

2.2 With a view to placing India on a higher growth path, the Budget 2000-2001 adopted a seven fold strategy which included the following elements: strengthen the foundations of growth of the rural economy, nurture knowledge based industries, strengthen and modernise traditional industries, remove infrastructure bottlenecks, accord high priority to human resource development with special emphasis on the poorest and weakest sections of society, strengthen the country's role in the world economy through rapid growth of exports, higher foreign investment and prudent external debt management and establish a credible framework of fiscal discipline.

2.3 The budget emphasised the need for broad based growth of agriculture for alleviating poverty, generating incomes and employment, assuring food security and sustaining a buoyant domestic market for industry and services. A number of initiatives have been taken to this end. The corpus of the Rural Infrastructure Development Fund VI was enhanced to Rs.4500 crore, with half a per cent reduction in interest charges on its lending, in order to improve the financing of rural infrastructure projects.

2.4 A number of new initiatives were also announced in the areas of elementary education, drinking water and reproductive and child health. A new programme called "Sarva Siksha Abhiyan" was announced to enable all children to enroll by 2003 and expand the coverage of District Primary Education Programme. Plan allocation for elementary education was increased from Rs. 2931 crore in 1999-2000 (RE) to a budgeted estimate of Rs. 3729 crore. The outlay on drinking water supply was hiked from Rs.1807 crore in 1999-2000 (RE) to a budgeted amount of Rs. 2100 crore during 2000-2001. Besides, central plan outlay on health and family welfare was enhanced by 17.2 per cent from Rs. 4198 crore in 1999-2000 (RE) to a budgeted level of Rs. 4920 crore in 2000-2001.

2.5 To fulfill critical needs of the rural people, a new scheme, "Pradhan Mantri Gramodya

[1]Provisional actual (unaudited) recent estimates of fiscal aggregates of Union Government Accounts have been used in place of revised estimates of 1999-2000 wherever possible, in this chapter.

Yojna" was launched with an outlay of Rs.5000 crore. Under the scheme, central assistance is to be provided to the States for implementing specific projects. Out of this, a sum of Rs.2500 crore was earmarked for constructing rural roads and improving rural connectivity.

2.6 Infrastructure services are critical for achieving and sustaining a high rate of growth. These are non traded services and therefore the infrastructure constraint cannot be eased through international trade. To augment the capacity of the power sector, the plan outlay for the Central PSUs in the power sector was enhanced from about Rs.7626 crore in 1999-2000 (RE) to about Rs.9194 crore in 2000-2001. For commissioning high priority projects by SEBs/State generating companies, a provision of Rs.300 crore was made for subsidising interest on loans from Power Finance Corporation. Besides, a provision of additional central plan assistance of Rs.1000 crore was made to facilitate modernisation and renovation of power plants and strengthening of power distribution system by State and Union Territory Governments.

2.7 The thrust of the direct tax proposals in the Budget was to retain stability in tax rates and widen the tax base. In addition, incentives for housing, infrastructure, information technology sectors and for development of capital markets, were also provided. A new regime for venture capital funds (VCFs), which allows complete pass through status, was put in place to stimulate particularly the growth of knowledge based industries. Provisions relating to amalgamations, demergers and slump sales have been further rationalised to provide tax-neutrality of corporate restructuring. Minimum Alternate Tax is to be charged at 7.5 per cent of the "book profits" by all companies as determined under the Companies Act. Tax benefits available for infrastructure have been extended to urban infrastructure, viz., water treatment and solid waste management. Existing tax holiday benefits for small scale industries and industrial units set up in industrially backward states and districts have been extended for another two years, i.e. till 31st March, 2002. Tax holiday for housing projects has been extended to projects completed before 31.3.2003 (present limit 31.3.2001). All tax concessions relating to earnings in foreign exchange are being phased out in a five year-period. With a view to expanding the tax base, "one-by-six" criteria introduced for identifying potential tax payers was extended to 79 more cities (from 54 cities) having a population of 2 lakh or more, as per 1991 Census.

2.8 On the indirect tax front, the process of reduction in the dispersal, rationalisation and simplification of duty rates was carried forward to reduce the transaction and compliance costs. The system of central excise was drastically overhauled with the introduction of a single Central Value Added Tax (CENVAT) of 16 per cent ad valorem on all manufactured goods with a few exceptions. This would also encourage the States/Union Territories to implement their agreed programme for converting their sales taxes into VAT by 1.4.2002. In addition to CENVAT, three rates of special excise of 8 per cent, 16 per cent and 24 per cent have been prescribed. These apply to certain specified goods like aerated water, tobacco products, motor vehicles, cosmetics, etc. The basis for excise assessment was made "transaction value" instead of "normal price". The peak rate of import duty was scaled down further from 40 per cent to 35 per cent and existing five major ad valorem rates of basic customs duty rationalised to 4 *ad valorem* rates viz. 5 per cent, 15 per cent, 25 per cent and 35 per cent. Also, substantial reduction in import tariffs was announced on items related to IT and telecom sector. Consequent to our international trade treaty obligations, several consumer goods and a large number of agricultural products were placed on the free list for imports effective 1st April, 2000 subject to the peak customs tariff rate of 35 per cent plus surcharge. To keep the cost of petroleum products down, the basic customs duty on crude petroleum and on petroleum products was reduced in the Budget and further scaled down to 10 per cent and 20 per cent respectively during the course of the year.

2.9 For medium term management of the fiscal deficit, the Budget proposed to bring out an institutional mechanism embodied in the "Fiscal Resposibility Act". Accordingly, the Fiscal Responsibility and Budget Management Bill, 2000 was introduced in Lok Sabha in December, 2000. The proposed legislation provides for a legal and institutional framework to eliminate revenue deficit, bring down the fiscal deficit, contain the growth of public debt and

stabilise debt as a proportion of GDP within a time frame. The principles of fiscal responsibility have been defined in relation to deficit, borrowing and debt. Deficit related indicators, viz., revenue deficit and fiscal deficit, have been identified and targeted. The Bill provides for elimination of revenue deficit and reduction of the fiscal deficit to not more than 2 per cent of gross domestic product within a period of five financial years and stipulates that within a period of ten financial years the total liabilities of the Central government do not exceed fifty per cent of the estimated gross domestic product.