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# A RESPONSE TO UNION BUDGET 2004-05

## New Deal or the Beaten Track?

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## NEW DEAL OR THE BEATEN TRACK?

With the political mandate of the United Progressive Alliance (UPA), came the Common Minimum Programme (CMP), a set of landmark announcements in favour of a pro people policy framework and, in many ways against the neo-liberal policies, which the earlier governments' had been pushing at an accelerating pace. The CMP made various promises and commitments for the welfare of the various sections of the society, enhancing their aspirations. Since CMP serves as the basic guiding framework behind all the efforts to be undertaken by the UPA government in policy matters, the Budget 2004-05 should be analysed keeping in view this backdrop and the interim budget 2004-05 as the benchmark for discussion. The sectors, which were the talk of the day since the release of CMP, are education, health, agriculture, employment, and rural infrastructure and women's development.

The Prime Minister in his first address to nation also promised a 'New Deal' for the rural sector. The Finance Minister in his budget speech referred to the CMP and admitted, 'This New Deal is not only essential for rural development and welfare, but also essential for achieving substantial overall annual growth of 7-8 per cent and generating employment'. Let's have a look at the budget 2004-05 and see how committed he remained to this 'New Deal'.

**Budget Highlights** presents key announcements from the Budget 2004-05 Speech and **Social Sector Focus** analyses the allocations to the social sector focusing on Agriculture, Rural Development and Employment, Education, Health and Women and Child development.

### BUDGET HIGHLIGHTS

- Finance Minister says that National Common Minimum Programme (NCMP) is guiding light for Budget 2004-05
- Gross Budgetary support increases by Rs. 10,000 crore to Rs. 1,45,590 crore to meet NCMP objectives
- In accordance with the rules of Fiscal Responsibility and Budget Management (FRBM) Act notified on July 5, 2004 - Medium term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macroeconomic Framework Statement presented with Budget
- Revenue Deficit to be wiped out by 2008-09

- Expectation of sustained GDP growth of 7-8 per cent
- FM emphasises focus on universal access to education, health and employment

## THRUST AREAS

*FM sets the following goals in the Budget 2004-05 –*

- Doubling agri credit in 3 years
- Completing ongoing irrigation projects
- Investment in rural infrastructure
- Farm insurance and livestock insurance
- Improving agri product markets and promoting agri business
- Drinking water for all
- Expanding water harvesting, watershed development and micro irrigation
- Enhancing investment in industry – public and private – to create jobs
- Creating space for small-scale industries
- Electricity for all
- Universal access to telecom facilities
- More housing for poor
- Access to medical care through health insurance
- Encouraging savings; protecting savings of senior citizens

## BUDGET ESTIMATES

- Total Expenditure is **Rs. 4, 77, 829 crore**
- Plan Expenditure for 2004-05 at **Rs. 1, 45, 590 crore.**
- Plan Revenue Expenditure increases from **Rs. 78, 537 crore (2003-04 BE) to Rs. 91, 843 crore**
- Plan Capital Expenditure increases from **Rs. 43, 612 crore (2003-04 BE) to Rs. 53, 747 crore**
- Non-Plan Expenditure in 2004-05 is **Rs. 3, 32, 239 crore, lower than Rs. 3, 49, 787 (2003-04 provisional actual)**
- Revenue Deficit 2004-05 is **Rs. 76, 171 crore (2.5 % of GDP)** reduces from **Rs. 99, 860 crore (3.6 % of GDP) in 2003-04**
- Fiscal Deficit is **Rs. 1, 37, 407 crore (4.4 % of GDP)**

## POLICY ANNOUNCEMENTS

Annexure-I lists the policy announcements for various sectors made by the Finance Minister in his budget speech.

## SOCIAL SECTOR FOCUS

### AGRICULTURE

"The agriculture sector requires massive investments" says the FM, and wants to achieve it "through credit-enabled private investment and enhanced public investment." In line with the CMP, the Budget 2004-05 also sets goal to double the credit flow to agriculture sector in three years. He referred to the comprehensive policy on agriculture credit announced by the UPA government last month. Holding sponsor banks of regional rural banks squarely responsible for the RRBs effectiveness and appointing a Task Force to examine the reforms required in the cooperative banking system are some measures, announced in the budget speech.

However, the government does not seem to have made major changes as far as public expenditure in the agriculture sector is concerned. As shown in the table below, increase in allocation for Dept. of Agriculture And Cooperative, over the 2003-04 allocation (BE) is just 19 per cent, which is no way a substantial increase, considering the fact that the agriculture sector has been starved of public investment for long. However, the Dept. of Animal Husbandry and Dairying has got about 60 per cent higher allocations over the last year's allocation (BE). **However the allocations are same as the interim budget presented by Jaswant Singh before elections, both the governments allocating Rs.5, 303.73 crore to agriculture.**

#### **Ministry of Agriculture: 2004-05 Allocations**

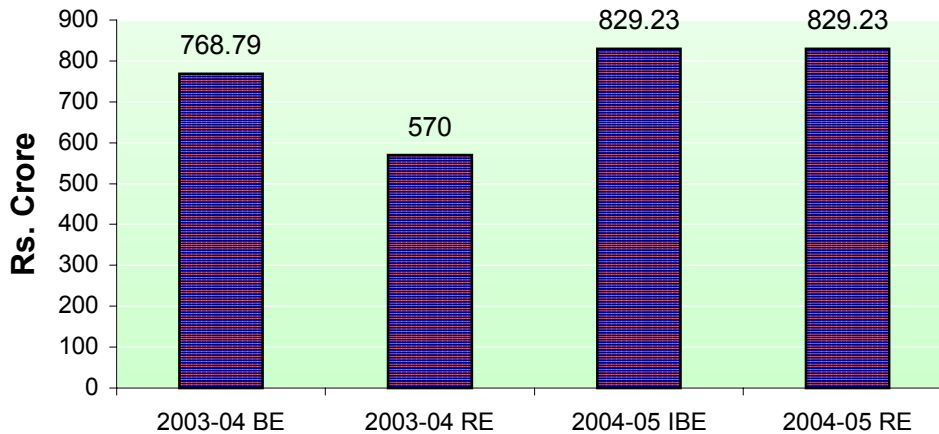
Departments	In Rs crore			
	2003-04 B E	2003-04 R E	2004-05 IBE*	2004-05 BE
Department of Agriculture and Cooperatives	2588.34	2529.00	3014.00	3014.00
Department of Agriculture and Research	1510.92	1512.92	1753.31	1753.31
Department of Animal Husbandry and Dairying	335.05	331.00	536.42	536.42
<b>Total</b>	4434.31	4372.92	<b>5303.73</b>	<b>5303.73</b>

\*Interim Budget Estimates

Source: Expenditure Budget Vol II

The **Ministry of Water Resources**, which looks after irrigation and flood control, has also got just 8 per cent higher than the last years budgeted amount. However, the increase is about 45 per cent over the last year's revised estimates, indicating that the utilisation by this ministry had been well below the budgeted amount during 2003-04.

## **Total Allocation: Ministry of Water Resources**



Source: Expenditure Budget Vol II

## **Rural Development and Employment**

The **Department of Rural Development** gets an increase of 11.34 per cent over the 2003-04 allocations (BE). But when you compare to the interim budget 2004-05, there is a marginal decline in allocations. Considering that critical rural development and employment generation programmes like SGSY, SGRY, Food for Work programme, and rural housing etc. come under this department, the final figures do not seem to reflect the concerns of the CMP.

The allocations for **Department of Drinking Water Supply** went up by about 30 per cent compared to the 2003-04 allocations (BE) and by about 20 per cent compared to the interim budget (*this is one of the rare examples where allocations have increased compare to the I B 2004-05*). This is important and positive, as 'drinking water to all' is one of the goals, which the FM has set for himself in the budget speech.

### **Ministry of Rural Development**

(In Rs. Crore)

Department	2003-04 BE	2003-04 RE	2004-05 IBE	2004-05 RE
<b>Dept. of Rural Development</b>	10289.28	15518.76	11487	11455.96
<b>Dept. of Land Resource</b>	1053.66	953.43	1264.48	1264.48
<b>Dept. of Drinking Water Supply</b>	2751.38	2751.39	3301.39	3301.39
<b>Total</b>	<b>14094.32</b>	<b>19223.58</b>	<b>16052.87</b>	<b>16021.83</b>

Source: Expenditure Budget Vol II

Allocation to the **Ministry of Agro and Rural industry** has increased by 29 per cent over the 2003-04 allocation (BE). The increased allocation to this ministry is important for rural employment generation as the programmes like Prime Minister Rozgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) get more funds. However the allocation for KVIC, which comes under the same ministry has not increased. It is interesting to note that the CMP promises to revamp the KVIC.

The revival of RIDF announced in the FM's speech is also a welcome move, Rs. 8, 000 crore is to be proposed to be provided to the as corpus to this fund for rural infrastructure projects. It remains to be seen as to how the FM garners resources for the corpus.

### **Plan Outlays for selected heads**

PLAN	In Rs. Crore			
	2003-04 BE	2003-04 RE	2004-05 IBE	2004-05 BE
<b>Agri and Allied</b>	3865.6	3670.8	4727.3	4642.7
<b>Rural Development</b>	6470.7	11528.1	<b>6991.8</b>	<b>6991.8</b>
<b>Irrigation and Flood Control</b>	442.5	275.2	<b>457.8</b>	<b>457.8</b>
<b>Water Supply and sanitation</b>	2631.3	2671.2	<b>3216.3</b>	<b>3216.3</b>
<b>Housing</b>	5408.0	5665.2	6671.4	6596.1
<b>Urban Development</b>	2162.8	2562.6	1854.7	1928.7

Source: Expenditure Budget Vol I

As seen from the table above, **there is no substantial increase in Plan Expenditure** from the interim budget 2004-05 estimates. However, when compared to 2003-04 Budget and Revised Estimates, allocations increase.

### **Urban Employment and Poverty Alleviation**

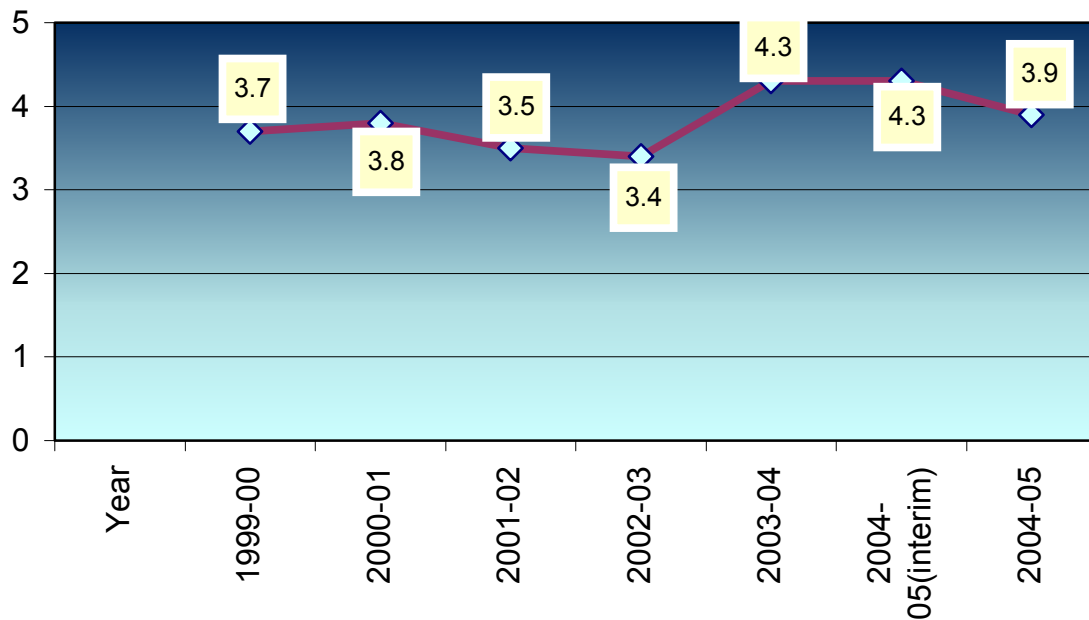
Ministry of Urban Employment and Poverty Alleviation has been allocated Rs. 841.68 crore, about 30 per cent more compared to the 2003-04 allocations of Rs. 641.99 crore (BE).

### **Education**

The Budget 2004-05 put forward by the Finance Minister Mr. P. Chidambaram on 8 July 2004 is most significant for the educational sector with its imposition of a **2 percent cess on all union taxes**. This is to mobilize substantial additional revenue to the order of Rs. 4000-5000 crore (2004-05 BE is Rs. 4, 910 crore) The Finance Minister in his budget speech said '**whole of this amount is for universal**

**elementary education and the centrally sponsored Mid Day Meal scheme**'. However, the provisions actually made in the budget are disappointing. While the government has not moved an inch beyond the interim budget 2004-05 as far as education is concerned, it was sheer rhetoric in the budget speech of the government. Though the policy direction is welcome, but allocations need to match them, else can the government of the day keep its own commitment for pro people governance?

**Plan Expenditure on Elementary Education as a Proportion of Total Plan Expenditure**



Source: Table 1 in Annexure II

While there has been an increase in education expenditure in nominal terms over the previous year, it is no better than the interim budget placed by the National Democratic Alliance (NDA) government in February 2004. In contradiction to the hype in the CMP as well as the budget speech, **the allocations for elementary education as a proportion of total plan expenditure and total expenditure have gone down**. It should be remembered that the universalisation of free and compulsory education is a fundamental right now and the present government has expressed its commitments towards the 86<sup>th</sup> Constitutional Amendment Act repeatedly in the CMP as well as the budget speech. The CMP also provides that the government shall ensure 6 percent of GDP to be spent on education over a period of time. However, the Union Budget 2004-05 does not seem to reflect this concern in its allocations for the sector.

The budget estimates for total expenditure on elementary education as placed by the previous NDA government was Rs. 5, 750 crore which amounted to around 1.3 percent of the total budgetary expenditure. However, in order to comply with the recommendations of Tapas Majumdar Committee, expenditure to the tune of Rs. 17, 000 crore are required for the year 2004-05 so that after ten years the school education can be universalised. The gap between the required and proposed expenditure for the year 2004-05 is so large that it makes a mockery of the universal education Act.

As far as university and higher education are concerned, the trend is really disturbing. **The Budget 2004-05 not only maintained the status quo set forth by the previous government, but also there has been a steady decline in the allocation over the years even in nominal terms.**

### **Plan and Non Plan Expenditure on University and Higher Education**

(Revenue and Capital Account)

Year	University and Higher Education			Col-2 as a Proportion of total Plan Expenditure	Col-3 as a proportion of total Non-plan Expenditure	Expenditure on Higher Education (Col-4) as a Proportion of total Budgetary Expenditure	Col-4 as a Proportion of Total Expenditure on Education
(In Rs. Crore)							
(1)	Plan (2)	Non-plan (3)	Total (4)	(5)	(6)	(7)	(8)
1999-00	419.09	1745.56	2164.65	0.55	0.79	0.73	29.58
2000-01	499.72	2091.48	2591.20	0.60	0.86	0.80	31.03
2001-02	545.00	1105.49	1650.49	0.54	0.42	0.46	20.45
2002-03	569.41	1178.96	1748.37	0.51	0.39	0.42	19.35
2003-04	566.22	1183.18	1749.40	0.47	0.34	0.37	17.01
2004-05 (Interim)	460.00	1156.64	1616.64	0.34	0.36	0.35	14.60
2004-05	460.00	1156.64	1616.64	0.32	0.35	0.34	14.60

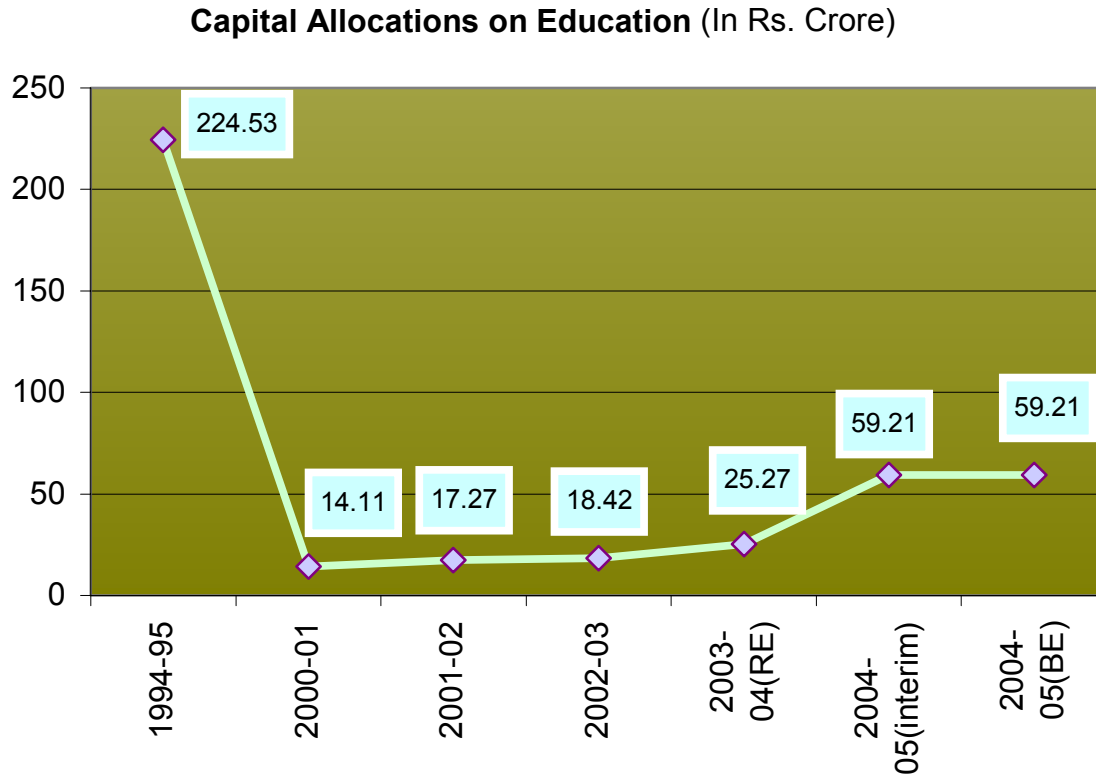
Source: Expenditure Budget-Vol II for different years

Plan expenditure on higher education as a proportion of total plan expenditure has almost halved between 2000-01 and 2004-05, where as in case of non-plan expenditure it is less than half during the same period.

The capital expenditure on education over last couple of years is grossly insufficient for the commitments required for universalisation of education. The proposed capital allocation in the budget estimate for 2004-05 is only Rs. 59.21 crore (similar to the allocations in the



interim budget), which is even less than the actual capital allocations for the sector in the year 1994-95.

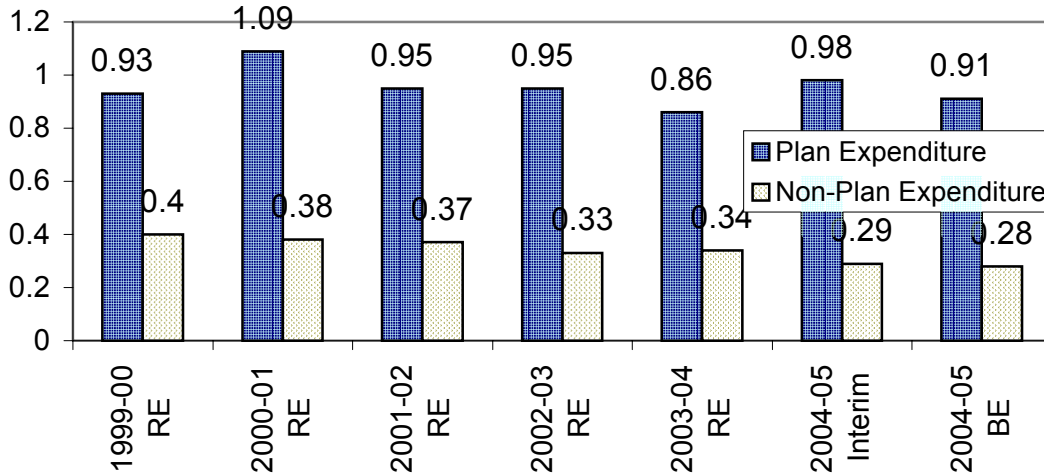


Source: Table 2 in Annexure II

## Health

**The central allocations for health in the non-plan have declined over the revised estimates for 2003-04 even in the nominal terms.** The CMP announced health as a priority sector and proposed an increase in the total allocation (state and centre) to the tune of around 3 percent of GDP in a phased manner. However, a comparison with the interim budget 2004-05 reveals that the plan allocation for the health sector as a proportion of total plan expenditure is 0.91 percent compared to 0.98 percent in the interim budget. The proportion of non-plan expenditure as a proportion of total non-plan expenditure has declined from 0.29 percent in the proposals contained in the interim budget to 0.28 percent in the present budget.

**Plan and Non-Plan Exp. on Health as a Proportion of  
Total Plan and Non-Plan Expenditure**  
(Revenue Account)



Source: Table 3 in Annexure II

In case of capital expenditure on medicine and public health, even in the nominal terms the plan allocations for the year 2004-05 BE has shown a decline of upto 26 percent over the previous years allocation. Though, in the non-plan front there have been some allocations, but it is still too small for the hype created by this apparently pro poor government in the Common Minimum Programme.

In his budget speech, the Finance Minister has announced a novel scheme for the provision of insurance coverage for the poor, which costs the exchequer to the tune of Rs. 40 crore. No matter how insignificant this amount will be for the concerns related to the public health sector in India, there is absolutely no mention in the budgetary provisions for the scheme.

Moreover, the central allocation for health scheme (item No-4, Department of Health) got a set back from Rs. 407 crore in the revised estimates of 2003-04 to Rs. 204 crore in the present budget. There is meagre assistance towards expenditure on hospitalisation of the poor, as it declines from around Rs. 3 crore to around Rs. 2.7 crore for the same period.

## **Plan and Non-Plan Expenditure on Health (Capital Account)**

(In Rs. Crore)

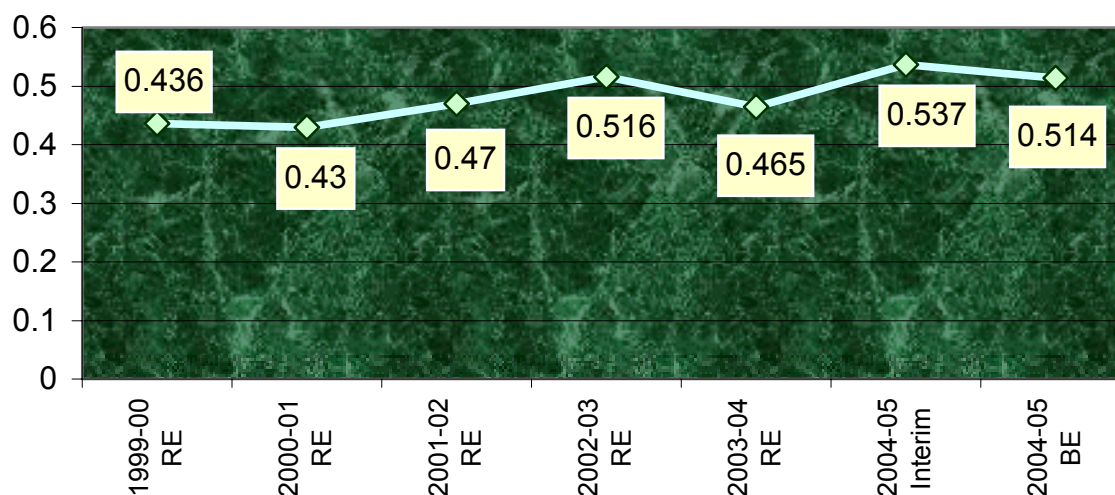
Year	Plan	Non-Plan	Total
1995-96 RE	19.87	-6.69	13.20
1996-97 RE	48.96	-6.67	42.29
1997-98 RE	34.38	-6.67	27.71
1998-99 RE	32.35	-6.67	25.68
1999-00 RE	17.51	-6.67	10.85
2000-01 RE	23.51	-6.67	16.84
2001-02 RE	19.62	-6.67	12.93
2002-03 RE	37.70	0	37.70
2003-04 RE	33.31	0	33.31
2004-05 Interim	24.71	0	24.71
<b>2004-05 BE</b>	24.71	25	49.71

Source: Annexure-1, Expenditure Budget Vol I for various years

## **Women and Child Development**

The Ministry of Human Resource Development that also takes care of the welfare of women and children has allocated only 0.51 percent of the total budgetary allocation. This for the welfare of the deprived half of the population and around 16 crore children in India who are in the age group of 0-6 years of which around 6 crore are living below poverty line. It has been reported by Forum for Crèche and Childcare Services, India in its latest report.

**Total Budgetary Allocation for Women and Child Development as a Proportion of Total Budgetary Allocation**



Source: Table 4 in Annexure II

In addition to the fact that the allocations are too small for the real development of women and children, the Budget 2004-05 has also proposed a reduction in the plan expenditure to the sector. It decreases as a proportion of total plan expenditure from around 1.8 per cent in the 2003-04 RE to around 1.6 per cent presently. **These figures are even more disappointing compared to the interim budget proposed by the previous NDA government,** which never was pro poor and pro women in its programme perspectives.

### **Budget 2004-05 – How does it sum up?**

- ◆ Budget Speech more of Policy directives than commitment in terms of actual allocations
- ◆ Budget 2004-05 was not very much different from Interim Budget 2004-05, and though CMP has been quoted many times in the speech – the allocations for education and health fall far short of the CMP targets.
- ◆ Looking at the allocations to the ministries/departments, one does not get very optimistic picture for agriculture, employment and the rural economy. The Finance Minister seems to rely upon the GBS worth Rs. 10, 000 crore, provided through the Ministry of Planning. However, the FM has **proposed a Rs. 10, 000 as gross budgetary support (GBS) to the state and centre plans.** This increase on plan expenditure, about 60 per cent of which is to be capital expenditure, is to be routed through the Ministry of Planning. **Rs. 6, 000 crore of this amount is for new/restructured schemes of the central ministries/departments and Rs. 4, 000 crore is new/restructured schemes under states and UTs Plans.** It has been said in the Expenditure Budget that this amount will sub serve the objectives of the CMP. This will also finance the programmes/schemes like Food for Work Programme, Sarva Shiksha Abhiyan, Mid day Meal Scheme, basic health care, railway safety, accelerated irrigation benefit programme, drinking water, public investment in agriculture and road etc. As FM indicated in his budget speech, Planning Commission would be responsible for reallocation of the extra GBS to different programmes/schemes. The concerns here are –
  - New Planning commission has been constituted only in July 2004
  - Planning Commission will now review various programmes for reallocations

So when does this year's allocation reach the beneficiaries? Planning commission would take time to complete the process of

review and allocations, and there is a possibility that Ministries would only get 5-6 months this fiscal for implementation of programmes/schemes or use the allocations.

- ◆ There have been attempts to substantially reduce Fiscal and Revenue deficit in order to comply with the Fiscal Responsibility and Budget Management Act. Through its various tax measures the Union government has proposed an **increase in the tax revenue to the tune of around Rs. 49, 737 crore.**
- ◆ **Total receipts increase to around Rs. 63, 574 crore** (including those to be raised from Market Stabilisation Measures) over 2003-04 RE. However, the government has only proposed a **rise in the total expenditure to the tune of Rs. 3, 574 crore.** This means the government will use the excess revenue for the reduction of deficits. Keeping in mind the allocations for the defence expenditure, it can be said that the crucial social sectors have got neglected. With the current position of food stocks and a general revival in the economy, here was a chance for the FM to provide more for CMP objectives.
- ◆ Defence Expenditure increases by a whopping 11, 000 crore and the wisdom of doing so remains questionable
- ◆ The new government has allocated **Rs. 10, 519 crore more for Plan Expenditure** and **Rs. 9, 876 crore for Non-Plan Expenditure** over the Interim Budget estimates.
- ◆ **Education cess of 2 per cent targets Rs. 4, 000-5, 000 crore this year, but allocations to elementary education have just increased by Rs.1, 000 crore.** If the cess is a lapsable fund and is to be used for primary education and mid day meal only, then where has the money gone? Is this the best way to raise money for education?
- ◆ Resource mobilization –

### **Revenue Receipts - Increase/Decrease over 2003-04 BE**

(In Rs. Crore)

Items	Interim Budget	Budget 2004-05
<b>Direct tax</b>	22600.0	36110.0
<b>Indirect Tax</b>	22770.0	26670.0
<b>Gross Tax Revenue</b>	45400.3	62810.3
<b>Non-Tax Revenue</b>	-10244.3	-4626.9

Source: Budget at a Glance for last three Budgets

The efforts are to **collect about Rs. 50, 000 crore more** this year and shift is to increase Direct Taxes share. While the interim budget proposed a rise in gross tax revenue to the tune of Rs. 45, 400 crore the Budget 2004-05 raised it by around Rs. 63, 000 crore. More than that the present budget has shown a greater reliance on the direct taxes to the indirect taxes. Target achievement finally rests on the compliance and effectiveness of the tax machinery.

***" Budget 2004-05 has given priority to deficit management, and we have a long wait till February 2005 - to see if the next year's budget will give the CMP objectives and the social sector its due "***

## **ANNEXURE I**

### **Budget 2004-05: Policy Directives**

#### **Poverty and Unemployment**

SSA, food for work, mid-day cooked meal scheme, basic health care etc. to be provided with additional funds.

- ◆ **AAY-** To cover additional 50 lakh taking target to two crore BPL families, gets subsidy of Rs. 3, 500 crore
- ◆ **PDS** -Government to focus on strengthening PDS system, Food Stamps to be issued as a pilot project
- ◆ **Food for work programme**
  - ✧ New food for work programme to be launched in 150 backward districts
  - ✧ Allocations of SGRY, SGSY, SJRSY, REGP and PMRY totalling to Rs. 6, 000 crore to be pulled together for food for work programme
- ◆ **SC / ST-** Allocation increased to Rs. 1, 180 crore from Rs. 1, 137 crore for SCs and Rs. 1, 146 crore (from Rs. 1, 087 crore) for STs
- ◆ **Minorities-** Additional outlay of Rs. 50 crore to National Minorities Development and Finance Corporation for education of minorities
- ◆ **SHGs** -Focus on micro finance, target of Rs. 5.85 lakh SHGs average by March 31, 2007 for NABARD, SIDBI, and Banks etc.

#### **Education**

- ◆ **Education cess - 2 per cent** surcharge on all Central taxes to raise **Rs. 4, 000 – 5, 000** crore annually. **Whole of cess to be earmarked for education and mid-day meal**
- ◆ **Upgrade ITIs:** 100 per year, target of 500 in 5 years
- ◆ **Educational loans** become easier - up to Rs. 7.5 lakh for professional courses do not need collateral

#### **Health**

- ◆ **Universal health insurance scheme** beneficiaries only 11, 408 till May, 2004, and hence proposes redesigning scheme so as to target 10 lakh, allocates **Rs. 40 crore**
- ◆ **Group health insurance scheme** for SHGs
- ◆ **HIV/AIDS programme** to get Rs. 259 crore allocation

## Agriculture and Rural Economy

### *Focus on agricultural growth*

- ◆ **Agri Credit**-Proposes to double agri credit in 3 years as per agri credit policy of June 18, 2004, policy to be implemented through RRBs. Task force on cooperative banking system to be set up
- ◆ **Irrigation**
  - ✧ **Accelerated irrigation Benefit Programme** to get **Rs. 2, 800 crore**
  - ✧ **Rural Infrastructure Development Fund (RIDF)** revived with a corpus of **Rs. 8, 000 crore**
  - ✧ Focus on reviving natural and man made water bodies; allocating Rs. 100 crore for five pilot projects in five districts
  - ✧ Water harvesting units for SC and ST farmers to be subsidized, gets allocation of Rs. 100 crore
- ◆ **Flood Control**-Centre to support flood control works in inter-state rivers and international rivers
- ◆ **Diversification** -Diversification from cereal crops to Horticulture, Floriculture and oilseeds
- ◆ **R&D**- Agri research allocations at **Rs. 1, 000 crore** (up from 775 crore of 2003-04 BE)
- ◆ **Agri Business**-Proposes additional capital to Small Farmers Agri Business Consortium (SFAC)
- ◆ **Risk mitigation**-Continuation of pilot scheme of Farm in case of 2003-04

## Infrastructure

- ◆ **Inter-institutional group** of IDBI, IFCI, ICICI Bank, SBI, LIC, Bank of Baroda, PNB to provide **Rs. 40, 000 crore** for infrastructure projects
- ◆ Rajiv Gandhi Drinking Water mission to be re-launched
- ◆ **Accelerated rural water supply** programme allocated **Rs. 2, 610 crore**
- ◆ **Urban water supply** programme to get **Rs. 157.25 crore**
- ◆ Chennai to get desalination plant set up with public-private partnership
- ◆ Sethusamudram ship canal project to be funded through special purpose vehicle
- ◆ Govt. to facilitate construction of International Container Transshipment Terminal (ICTT) at Kochi
- ◆ **Indira Awas Yojana** gets **Rs. 2, 247 crore**, target of 2, 50, 000 rural households in 2004-05



## Industry

- ◆ Investment commission, National Manufacturing Competitiveness Council proposed
- ◆ FDI raised in Telecom to 74 per cent (from 49%), Civil Aviation 40 to 49 per cent, Insurance 26 to 49 per cent
- ◆ Capital Markets – FIIs registration and operation systems to be made simpler, and investment ceiling for FIIs in debt funds raised from US \$ 1 Billion to \$ 1.75 Billion
- ◆ Proposes creation of alternate trading platform for small and medium enterprises to raise equity and debt
- ◆ Steps to integrate commodities and securities markets
- ◆ **Public Sector\_-** Equity support of Rs. 14, 194 crore and loans of Rs. 2, 132 crore to Central PSEs. HAL, ITI to get financial support for restructuring
- ◆ **Small Scale Industry\_-** Ceiling of loans under Capital Subsidy Scheme raised from 40 lakh to 1 crore
- ◆ **Regeneration of Traditional Industries\_-** Fund of Rs. 100 crore to be set up
- ◆ **VAT -** To be implemented from April 1, 2005

## Other measures

- ◆ New Trade Policy to be announced
- ◆ Amendments to Securitisation Act to be made
- ◆ Interest rates for senior citizens at 9 per cent; PPF, GPF etc. at 8 per cent
- ◆ Scraps Vasishta Pension Bima Yojana
- ◆ Gender Budgeting aspect will be looked into

## State Finances

- ◆ State Finances: **States' share of Union tax and duties** will increase to **Rs. 82, 227 crore** from **Rs. 63, 758 crore** (2003-04 BE)
- ◆ **Interest on loans to States** reduced to **9 per cent**
- ◆ **Special Economic packages** for Bihar (Rs. 3, 225 crore), North Eastern Region (Rs. 550 crore) and Jammu and Kashmir (Rs. 300 crore)
- ◆ Proposes to set up **Backward States Grant Fund of Rs. 25, 000 crore** to be operational in 2005-06

## Defence

- ◆ Defence modernisation to get **additional Rs. 11, 000 crore**, allocation increased from **Rs. 65, 300 crore (2003-04BE) to Rs. 77, 000 crore**

## Tax Proposals

### Direct Tax

- ◆ **Taxable income up to Rs. 1, 00, 000 fully exempt** from income tax – 1.4 crore assesses to benefit.
- ◆ Agricultural land (under Urban agglomerations) exempt from capital gains tax arising from compensation of acquisition of such lands
- ◆ Withdraws tax exemptions on interest earned in Non Resident (External) Account from September 1, 2004
- ◆ Gift Tax reintroduced - gifts from unrelated persons upwards Rs. 25, 000 will be taxed
- ◆ Agro processing industries to get deduction of 100 per cent of profits for 5 years and 25 per cent of profits for the next 5 years in case of new industries under sec. 80 1B
- ◆ Continues additional depreciation of 15 per cent under sec. 32(1)(iia) on new plant and undertakings
- ◆ Automobile in house R & D to get 150 per cent deduction of expenditure
- ◆ Power sector gets tax concession
- ◆ Tonnage tax on shipping industry
- ◆ New hospitals of 100 beds or more in rural areas to get tax concessions
- ◆ Short-term capital gains of securities at 10 per cent
- ◆ Turnover tax of 0.15 per cent of value of security levied on buyer of securities
- ◆ Debt funds to withhold 12.5 per cent of income distributed to unit holders

### Indirect Tax

- ◆ Peak customs duty of 20 per cent to continue
- ◆ Excise duty on steel hiked from 8 to 12 per cent
- ◆ Crude Palm oil customs duty retained at 65 per cent, while refined Palm oil will increase to 75 per cent
- ◆ Tractors, Dairy equipment's, hand tools, sickles etc. fully exempt from excise- to be cheaper

- ◆ Excise duty on preparation of meat, poultry and fish reduced from 16 to 8 per cent
- ◆ Rehabilitation aids fully exempt from customs, excise and countervailing duty (CVD)
- ◆ Computers to be cheaper, no excise duty
- ◆ LPG stoves up to Rs. 2, 000 MRP, footwear up to Rs. 250 MRP and writing instruments up to Rs. 200 MRP to get excise relief
- ◆ Import duty on Platinum reduced from Rs. 550 to Rs. 200 per 10 gms
- ◆ Mandatory CENVAT duty on textiles sector to be replaced with new tax regime- will benefit textile industry
- ◆ Service tax extended to airport services, transport booking agents, transport of goods by air, opinion poll services, intellectual property services, independent TV/Radio producers' etc. Service tax rate increased from 8 per cent to 10 per cent, effective rate at 10.2 per cent
- ◆ Education cess of 2 per cent surcharge on all Central taxes. Effective Rates of indirect taxes now are:

<b>Tax</b>	<b>General Rate</b>	<b>Revised rate</b>
<b>Customs duty</b>	39.2%	40.37%
<b>Excise duty</b>	16%	16.32%
<b>Service tax</b>	8%	10.2%

**Annexure II****Table - 1****Plan and Non-Plan Expenditure on Elementary Education**

(Revenue and Capital Account)

Year	Elementary Education			Col-2 as a	Col-4 as a	Col-4 as a
	Plan	Non-plan	Total	Proportion of Total Plan Expenditure	Proportion of Total Expenditure	Proportion of total expenditure on education
(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>1999-00</b>	2852.28	1.96	2854.24	3.7	1.0	39.01
<b>2000-01</b>	3150.00	2.30	3152.00	3.8	1.0	37.75
<b>2001-02</b>	3574.75	2.30	3577.05	3.5	1.0	44.32
<b>2002-03</b>	3762.07	2.30	3764.37	3.4	0.9	41.66
<b>2003-04</b>	5217.00	2.47	5219.47	4.3	1.1	50.74
<b>2004-05 (Interim)</b>	5750.00	2.53	5752.53	4.3	1.3	51.96
<b>2004-05</b>	5750.00	2.53	5752.53	3.9	1.2	51.96

Source: Expenditure Budget Vol II for different years

**Table - 2****Capital Allocation on Education**

(In Rs. Crore)

Year	Capital Allocation on Education*
<b>1994-95</b>	224.53
<b>2000-01</b>	14.11
<b>2001-02</b>	17.27
<b>2002-03</b>	18.42
<b>2003-04(RE)</b>	25.27
<b>2004-05(Interim)</b>	59.21
<b>2004-05(BE)</b>	59.21

\*This includes capital allocations for sports and culture.

Source: Expenditure Budget Volume I for different years.

**Table – 3****Plan and Non-Plan Expenditure on Health (Revenue Account)**

<b>Year</b>	<b>Plan</b>	<b>Non-Plan</b>	<b>Total</b>	<b>Col-2 as a proportion of Total Plan Expenditure</b>	<b>Col-3 as a Proportion of Total Non-Plan Expenditure</b>	<b>Col-4 as a Proportion of Total Budgetary Expenditure</b>
	(In Rs. Crore)					
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
<b>1999-00 RE</b>	711.43	895.65	1607.08	0.93	0.40	0.54
<b>2000-01 RE</b>	900.93	924.99	1825.92	1.09	0.38	0.56
<b>2001-02 RE</b>	959.51	973.82	1933.33	0.95	0.37	0.53
<b>2002-03 RE</b>	1062.66	984.57	2047.23	0.95	0.33	0.49
<b>2003-04 RE</b>	1044.44	1182.61	2227.05	0.86	0.34	0.47
<b>2004-05 Interim</b>	1322.40	929.05	2251.45	0.98	0.29	0.49
<b>2004-05 BE</b>	1322.40	929.05	2251.45	0.91	0.28	0.47

Source: Annexure-1, Expenditure Budget Vol I for various years

**Table - 4****Budgetary Allocations for Women and Child Development**

<b>Year</b>	<b>Plan</b>	<b>Non Plan</b>	<b>Total</b>	<b>Col-2 as a proportion of Total Plan Expenditure</b>	<b>Col-3 as a Proportion of Total Non-Plan Expenditure</b>	<b>Col-4 as a Proportion of Total Budgetary Expenditure</b>
	(In Rs. Crore)					
1999-00 RE	1249.86	48.21	1298.07	1.641	0.022	0.436
2000-01 RE	1350.55	49.59	1400.14	1.634	0.020	0.430
2001-02 RE	1650.00	53.79	1703.79	1.631	0.021	0.470
2002-03 RE	2085.00	53.41	2138.41	1.871	0.018	0.516
2003-04 RE	2150.00	53.91	2203.91	1.769	0.015	0.465
2004-05 Interim	2400.00	54.19	2454.19	1.777	0.017	0.537
2004-05 BE	2400.00	54.19	2454.19	1.648	0.016	0.514

Source: Expenditure Budget-Vol.-II, MHRD, Department of Women and Child Development.

**Annexure III****Selected Abbreviations**

<b>AAY</b>	- Antyodaya Anna Yojana
<b>BE</b>	- Budget Estimates
<b>BPL</b>	- Below Poverty Line
<b>CENVAT</b>	- Central Value Added Tax
<b>HAL</b>	- Hindustan Aeronautical Limited
<b>IB</b>	- Interim Budget
<b>IBE</b>	- Interim Budget Estimates
<b>ITI</b>	- Industrial Training Institute
<b>KVIC</b>	- Khadi and Village Industries Commission
<b>PDS</b>	- Public Distribution System
<b>PSE</b>	- Public Sector Enterprises
<b>R &amp; D</b>	- Research and Development
<b>RE</b>	- Revised Estimates
<b>RIDF</b>	- Rural Infrastructure Development Fund
<b>SC</b>	- Scheduled Caste
<b>SGRY</b>	- Sampoorna Gramin Rozgar Yojana
<b>SGSY</b>	- Swarnjayanti Gram Swarozgar Yojana
<b>SHG</b>	- Self Help Group
<b>ST</b>	- Scheduled Tribe
<b>UT</b>	- Union Territory
<b>VAT</b>	- Value Added Tax