सत्यमेव जयते

Government of India

"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."

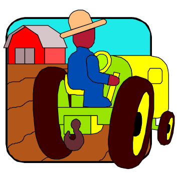
BUDGET 2002-03

28th February 2002.

Key Features of Budget 2002-2003

Budget strategy

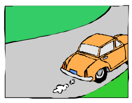
- Continue the emphasis on agriculture and food economy reforms.
- Enhance public and private investment in infrastructure.
- Strengthen the financial sector and capital markets.
- Deepen structural reforms and regenerate industrial growth.
- Provide social security to the poor.
- Consolidate tax reforms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



Agriculture and Rural Development

- 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.
- Group of Ministers (GOM) to be set up to propose legislative and other changes for preparing a modern integrated food law and related regulations.
- Additional allocations in respect of centrally sponsored schemes would be linked to decontrol and deregulation of the agricultural sector by the States.
- Additional allocation of Rs. 70 crore to Credit Linked Subsidy Scheme for construction of cold storages and rural godown schemes in 2002-03.
- 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.
- Under the scheme of micro credit through Self Help Groups a target of 1.25 lakh additional self-help groups set.
- Special One Time Settlement scheme for small and marginal farmers will be announced by RBI to cover loans upto Rs. 50,000.
- A new Corporation for Agriculture Insurance to be promoted by the existing public sector general insurance companies.
- Allocation for the Accelerated Irrigation Benefit Programme (AIBP) increased from Rs. 2,000 crore this year to Rs. 2,800 crore in 2002-03.

- Allocation for agriculture research enhanced to Rs 775 crore from Rs 684 crore.



Rural Roads

- Allocation of Rs 2,500 crore for the Pradhan Mantri Gram Sadak Yojana (PMGSY).

Rural Electrification

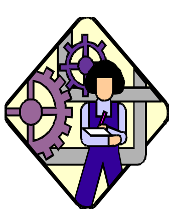
- New interest subsidy scheme called the Accelerated Rural Electrification Programme to be introduced. An outlay of Rs 164 crore provided.

Rural Employment

- Jai Prakash Rozgar Guarantee Yojana (JPRGY) to be launched to provide employment guarantee to the unemployed in the most distressed districts of the country.
- Wardha Institute started by Mahatma Gandhi in 1935 to be upgraded as a National Institute to be called Mahatma Gandhi Institute for Rural Industrialisation.
- 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.
- Insurance cover through a Master Policy for houses constructed by the poor under the Indira Awas Yojana (IAY) in disaster prone areas will be provided.

Management of Food Economy

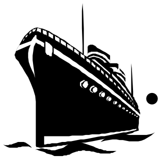
- Number of steps taken by the Government to reduce high food stocks, like increased allocations for BPL families; launching of a major food for work programme under the SGRY; allocation of 30 lakh tonnes of free foodgrains to States for relief works in areas affected by natural calamities; open market sales of 30 lakh tonnes during 2001-02 compared to 5.5 lakh tonnes in 2000-2001; and enhanced incentives for export of food grains.



INFRASTRUCTURE

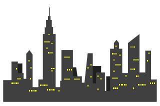
Power

- APDP being redesigned as the Accelerated Power Development and Reform Programme (APDRP), with an enhanced plan allocation of Rs 3,500 crore for 2002-03. The focus of reform 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, Ports and Civil Aviation

- The Golden Quadrilateral will be completed substantially by December 2003, a year ahead of schedule.
- Major ports to be corporatised in a phased manner. Regulatory structure will be strengthened.
- International airports at Delhi, Mumbai, Chennai and Kolkata to be upgraded to the standards of world class airports by inducting private sector management and investment through long term leasing systems. Leasing process will be completed in 2002-03.
- Private sector participation in greenfield airport projects will be encouraged through a package of concessions.

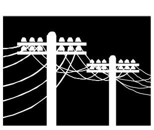


Urban Development

- Urban Reform Incentive Fund (URIF) to be setup with an initial allocation of Rs. 500 crore to provide reform linked assistance to States. The Fund will seek to incentivise reforms in 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, levy of realistic user charges and resource mobilization by urban local bodies and initiation of public private partnership in the provision of civic services.
- A City Challenge Fund (CCF) to 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. A Pooled Finance Development Scheme also to be setup to provide credit enhancement to assist local bodies to access market borrowing on a creditworthy basis. Allocation for the issue of municipal tax free bonds increased to Rs. 500 crore from Rs. 200 crore.

Tourism

- 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 and Hampi will be developed as an international destination for tourism.
- Plan Outlay for tourism increased by 50 per cent to Rs. 225 crore.

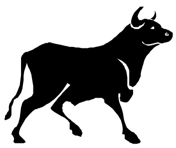


Infrastructure Finance

- An Infrastructure Equity Fund of Rs. 1,000 crore will be set up to help in providing equity investment for infrastructure projects.
- 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 Investment

- Total Plan outlay in power, roads and railways increased by 22 per cent, 39 per cent and 23 per cent respectively, to a total of Rs. 37,919 crore.



FINANCIAL SECTOR AND CAPITAL MARKETS

Debt and Capital Market

- Government Securities Bill to replace the old Public Debt Act 1949 to be introduced.
- Legislative changes will be proposed in the SEBI Act 1992 for investor protection, and to enhance the effectiveness of SEBI as the capital market regulator.
- Further legislative changes to be proposed during the year in the UTI Act to put in place other needed reform measures.
- FII portfolio investments not to be subject to the sectoral limits for foreign direct investment except in specified sectors.

Banking Sector

- Additional fiscal relief is being offered to help banks and financial institutions to make provisions for NPAs.
- A new Bill on Banking Sector Reforms to be introduced in Parliament to strengthen creditor rights through foreclosure and enforcement of securities by banks and financial institutions.
- A pilot Asset Reconstruction Company to be set up by June 30, 2002 for initiating measures for taking over non performing assets in the banking sector and also developing 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 depositor’s risks and for dealing with distressed banks.
- IDBI to be corporatised.
- A provision of Rs. 1300 crore is proposed for re-capitalisation support to the Indian Bank.
- Foreign banks to either operate as branches of their parent banks or to set up subsidiaries. Subsidiaries will have to adhere to all banking regulations, including priority sector lending norms, applicable to other domestic banks.
- Provision of Rs. 100 crore as Centre’s share for introducing reform measures in the area of cooperative credit structure. Provision of additional funds to be considered based on pace of reforms.

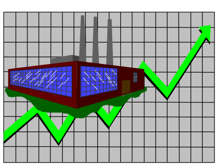
Housing Finance

- NHB to launch a Mortgage Credit Guarantee Scheme, which would be provided to all housing loans to fully protect lenders against default.

- The target under the Golden Jubilee Rural Housing Finance Scheme increased to 2.25 lakh for 2002-03.
- The allocation of the Indira Awas Yojana increased by13 per cent to Rs. 1,725 crore for 2002-03.

Capital Account Liberalisation

- Full convertibility of deposit schemes for Non Resident Indians. The schemes, which do not offer full convertibility to NRIs to be discontinued from April 1, 2002.
- NRIs will be free to repatriate in foreign currency their current earnings in India.
- Indian companies may now invest abroad up to US $ 100 million on an annual basis through the automatic route, up from the existing limit of US $ 50 million.
- Indian companies may make overseas investment in joint ventures abroad by market purchases without prior approval up to 50 per cent of their net worth.
- Indian mutual funds allowed to invest in rated securities in countries with fully convertible currencies, within the existing limits.
- Legislation to be brought for empowering 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 Pricing Mechanism (APM)

Petroleum

- Administered Price Mechanism (APM) in the petroleum sector to be dismantled as of April 1, 2002.
- The pricing of petroleum products to be market determined.
- Issue of oil bonds to the concerned oil companies to liquidate the Oil Pool Account.
- Private companies to be permitted in distribution subject to specified guidelines.
- A Petroleum Regulatory Board would be set up to oversee the sector.
- Subsidy on domestic LPG and PDS Kerosene to be provided in the budget.
- Freight subsidies will continue to be provided for LPG and kerosene to far-flung areas.
- Price of diesel and petrol to come down by around 50 paise and Re 1 per litre respectively from March 1, 2002.

- 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. Subsidy on these products will be borne by the consolidated fund from April 1, 2002.
- The subsidies on LPG and kerosene will be on specified flat rate basis from April 1, 2002. The retail prices to vary as the price of crude oil changes in the international market.

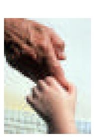
Small Scale Industries

- The limit for composite loans has been increased from Rs. 2 lakh to Rs. 5 lakh.
- 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.
- Public sector banks 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.
- Over 50 items of knitwear, certain agricultural implements, auto components, some chemicals and drugs, and others to be dereserved.

HUMAN DEVELOPMENT

Education

- Plan allocation to the Department of Elementary Education and Literacy enhanced from Rs. 4,000 crore this year to Rs. 4,900 crore.
- Loans amounting to about Rs. 670 crore have already been given to almost 50,000 students under the comprehensive educational loan scheme announced last year.



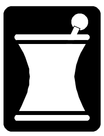
Social Security

- An insurance scheme called "Janraksha" 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.

Women and Children

- Plan allocation for the Department of Women and Child Development increased by 33 per cent to Rs, 2,200 crore.

- At least 100 scholarships a year to be instituted to encourage the entry of large numbers of women into scientific professions.
- Under the National Nutrition 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

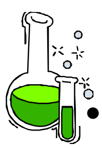
- The National Institute of Siddha at Chennai provided Rs. 4 crore for commencing its activities. A National Ayurvedic Hospital to be set up at Delhi with private sector participation. Budgetary support for ISM enhanced by 25 per cent to Rs. 150 crore.

Scheduled Castes and Scheduled Tribes

- Allocation for the welfare and upliftment of Scheduled Castes increased from Rs. 792 crore this year to Rs 879 crore in the coming year.
- Plan outlay for tribal welfare increased by 21 per cent to Rs. 290 crore.

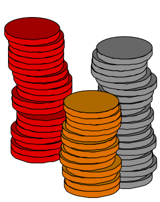
Development of North Eastern Region

- The provision for expenditure in North Eastern States out of the Central Plan of various Ministries increased from Rs. 2,022 in the current year to about Rs 3,700 crore next year.



Science and Technology

- The plan allocation for the Department of Science and Technology raised by 52 per cent to Rs. 625 crore.
- Allocation for Fund for the Improvement of Science & Technology (FIST) increased by 115 per cent to Rs. 75 crore. Resources from fund may also be used to augment library facilities in the Universities.
- Micro venture capital fund to be set up for small innovations to be initiated by the Small Industries and Development Bank of India (SIDBI), in cooperation with the National Innovation Foundation, to facilitate the transition of innovations into enterprises.

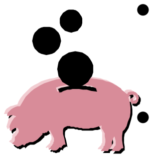


FISCAL CONSOLIDATION

Expenditure Management

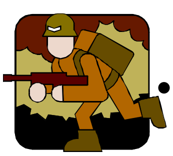
- Of the identified surplus manpower of 42,200 in 36 Ministries/Departments where ERC completed its work, nearly 12,200 posts expected to be abolished by the end of March 2002.
- Decision to limit fresh recruitment to 1 per cent of total civilian staff strength to continue over the next 4 years.

- Modest increases in the issue price of urea, DAP and MOP by about 5 per cent. Subsidy for SSP reduced by Rs 50 per tonne. The prices of complex fertilisers also to be suitably modified.
- Compulsory levy on sugar to be reduced from 15 to 10 per cent from March 1, 2002. Retail price of PDS sugar to be Rs 13.50 per kg. from March 1, 2002.
- Modest increase in postal rates.



Small Savings and Interest Rates

- Administered interest rates to be benchmarked to the average annual yields of government securities of equivalent maturities in the secondary market.
- Most administered interest rates to be reduced by 50 basis points from March 1, 2002. Future adjustments to 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.
- Government Relief Bonds to have a reduction of 50 basis points in interest rate. A ceiling of Rs 2 lakh per year put on investment in these bonds.
- The entire net proceeds of small savings to be transferred to State Governments beginning April 1, 2002, up from the current transfer of 80 per cent.
- State Governments may pre-pay their high cost debt of the past from these additional lower cost resources.
- The interest rate on the loan portion of Central assistance to State plans reduced by 50 basis points.

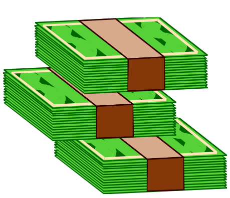


Defence

- Provision of Rs 65,000 crore for defence expenditure for next year. As a measure of welfare of the defence forces and their families a major programme of housing construction for defence personnel also being taken up.

States Fiscal Reforms

- Rs. 12,300 crore provided for reform linked assistance to States for a number of sectors like APDRP, AIBP, URIF, RIDF. A lump-sum amount of Rs 2,500 crore has been provided for policy reforms in sectors which are constraining growth and development.



Principles of Tax Proposals

- Tax proposals are against the backdrop of the current economic slow-down. Intended to revive demand, promote investment, accelerate economic growth, enhance productivity, widening the tax base, rationalization and simplification of tax structures and encouraging voluntary compliance.

Indirect taxes

- Total indirect tax collection estimated at Rs. 1,43,702 crore.

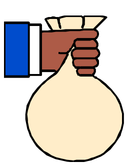
Excise

- 16 per cent special excise duty abolished on a number of items.
- LPG, kerosene, auto CNG and diesel engines upto 10 HP will now attract CENVAT rate of 16 per cent.
- Excise duty at a moderate rate of 4 per cent on a few items imposed last year increased to 8 per cent. Excise duty at 4 per cent imposed on a few more items, which have remained exempted so far.
- Cigars, cheroots and cigarillos of tobacco or tobacco substitutes shall attract 16 per cent CENVAT.
- Changes in the duty structure of petroleum products. Cess on indigenous crude oil increased from Rs. 900 per metric tonne to Rs. 1,800 per metric tonne. *Ad valorem* rate of excise duty applicable to motor spirit reduced from 90 per cent to 32 per cent. However, a surcharge of six rupees per litre imposed. The surcharge on ethanol doped motor spirit to be only Rs. 5.25 per litre.
- Special incentives for the textile industry.
- Refineries in the North Eastern region to be charged to excise duty at half of the normal rates of excise duty.
- Air travel to and from North East States exempted from Inland Air Travel Tax.
- Excise duty on tea reduced from Rs 2 per kg to Re.1 per kg.
- Specified anti-AIDS drugs exempted from excise duty.
- Three more equipment items added to the list of specified cold chain equipment exempt from excise duty.
- Excise duty exemption scheme withdrawn for granite in the small-scale sector.
- The scheme of excise duty assessment extended to 9 more categories of items this year, raising the number to 92 categories of items.
- Service tax extended to new sectors.
- Service tax exemption on the services provided by hotels extended upto 31st March 2003.

Customs

- By the year 2004-05 only two basic rates of customs duties, viz., 10 per cent covering generally raw materials, intermediates and components and 20 per cent generally covering final products. Peak rate reduced from 35 to 30 per cent this year.
- Customs duty reduced by 10 per cent on a number of refractory raw materials
- Basic customs duty on seconds and defectives of steel increased to the bound rate of 40 per cent.
- Customs duty on copper, zinc and lead reduced from 35 per cent to 25 per cent and on aluminium and tin from 25 per cent to 15 per cent.
- Special Economic Zone would be entitled to procure duty free equipment, raw materials, components, etc.
- Customs duty on specified equipment for Ports and Airports reduced to 10 per cent.

- Exemption to aeroplanes, helicopters, gliders, simulators of aeroplanes and their parts and raw materials.
- Zero duty regime on IT products made effective from 2005. Customs duty on a number of hardware inputs reduced to 5 per cent and on certain capital goods to 15 per cent. The duty on certain IT items to be reduced to 10 per cent or 5 per cent as per the WTO binding.
- Cellular phones and pagers exempted from CVD; basic customs duty increased from 5 per cent to 10 per cent.
- Customs duty on tea and coffee increased to 100 per cent and on natural rubber, poppy seeds, pepper, cloves and cardamom to 70 per cent and pulses to 10 per cent.
- Customs duty on agricultural machinery and implements reduced from 25 per cent to 15 per cent.
- Eight more drugs used for treatment of cancer and some other critical diseases included in the list of fully exempted drugs.
- Customs duty on Glucometers and test strips reduced from 25 per cent to 10 per cent.
- Customs duty on non-PDS kerosene reduced from 35 per cent to 20 per cent and increased from 5 per cent to 10 per cent on kerosene sold under the PDS scheme.
- Customs duty on certain earth station equipment and studio equipment reduced from 35 per cent to 25 per cent.
- Customs duty on cement and clinkers reduced from 25 per cent to 20 per cent.
- Customs duty on certain items of personal use for passengers returning from abroad on transfer of residence reduced to 30 per cent. Overall limit of value of the items permissible under this scheme raised from Rs 1.5 lakh to Rs 5 lakh.
- A nominal customs duty of 5 per cent on some of the items that are exempt at present. Special additional duty on certain other items that are currently subjected to 5 per cent customs duty.
- In the next two years CENVAT to be reduced to one rate only, namely 16 per cent.



Direct taxes

- Direct tax revenue in 2002-2003 to be Rs. 91,585 crore.
- Personal Income tax rates unchanged.
- Additional depreciation at the rate of 15 per cent allowed 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 per cent.
- Rate applicable to foreign companies reduced from 48 per cent to 40 per cent.
- Capital gains exemption under section 54EC allowed on amounts invested in bonds issued by SIDBI and NHB.
- Full exemption from tax to the income of Credit Guarantee Fund Trust for Small Industries.

- Deduction for interest payable on housing loans for self-occupied houses allowed 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.
- Deduction against provisions for bad and doubtful debts by banks increased to 7.5 per cent of the total income. Optional deduction of 5 per cent of NPAs falling in the category of loss or doubtful assets enhanced to 10 per cent. Similar option given to public financial institutions.
- Benefit of carry forward and set off of past losses extended to companies providing telecom services and eligible for deduction under section 80-IA. An expert group to examine the extension of this benefit to other companies in the services sector, including the financial services sector.
- Expenditure Tax on hotels to apply only to room charges exceeding Rs 3,000 per day.
- Maximum deduction allowable under section 80HHD in respect of foreign exchange earnings of hotels or tour operators increased from 40 per cent to 50 per cent for the assessment year 2003-2004, and from 20 per cent to 30 per cent for the assessment year 2004-2005.
- Deduction of 50 per cent of the profits earned by units setting up and operating large convention centres to be allowed for 5 years under section 80-IB.
- Deduction of 50 per cent of the profits earned by units constructing and operating multiplex theatres in non-metropolitan towns allowed for the next five years.
- Deduction under section 35AC allowed in respect of amounts paid to a company or institution 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.
- The requirement of publishing their accounts by such charitable and religious trusts as well as certain other institutions claiming exemption under section 10(23C) whose total receipts during a year exceeded Rs. 1 crore withdrawn.
- 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, option given to the employer to pay the tax on perquisites on behalf of his employees.
- Relief under section 89 on family pension received in arrears.
- Clearance to be obtained from the Appropriate Authority before registering a transfer of an immovable property abolished.
- Tax-exemption allowed to income earned by NDDB, Prasar Bharati and the Oil Industry Development Board withdrawn.
- Revised schedule of depreciation rates to be notified after taking into account public views.
- Distribution tax of 10 per cent on companies and mutual funds on the dividends or income distributed by them abolished. 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 10 per cent. Income

received during 2002-2003 by unit holders of equity oriented funds of the UTI and other mutual funds will be taxed only at 10 per cent as at present.

- Taxable income between Rs 1,50,000 and Rs 5 lakhs to get a rebate of only 10 per cent under section 88 of the amount invested. No rebate where taxable income exceeds Rs 5 lakhs.
- Tax exemption to employees receiving amount upto Rs 5 lakhs as VRS compensation extended to employees of certain institutions of national or State-level importance.
- A Scheme called “Sampark” to be launched to enable taxpayers to obtain information and forms through the Internet.
- Penalty of Rs 10,000 in all cases where a false PAN is quoted in documents relating to specified transactions.
- 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 will require compulsory quoting of permanent account number.
- The 2 per cent surcharge imposed last year in the wake of the Gujarat Earthquake abolished. A new surcharge of 5 per cent across-the-board on all categories of taxpayers, except individuals and Hindu Undivided Families having total income upto Rs. 60,000 introduced.
- 100 per cent deduction of export profits allowed to certain units under sections 10A and 10B of the Income-tax Act reduced to a 90 per cent deduction for the assessment year 2003-2004.