

Post Budget developments

2.31 Rising international oil prices exerted an upward pressure on wholesale price index (WPI). Inflation continued to rise after mid-May, reaching a peak of 8.7 per cent in the week ending August 28, 2004. To soften the impact of rising international oil prices on consumers, following the reduction already effected on June 16, 2004, Government further reduced customs and excise duties on August 18, 2004. Customs duty on motor spirit (petrol) and high speed diesel (HSD) was reduced from 20 per cent to 15 per cent, and customs duty on LPG and kerosene for PDS was brought down from 10 per cent to 5 per cent. Excise duty on motor spirit was reduced from 26 per cent to 23 per cent, on HSD from 11 per cent to 8 per cent and on kerosene for PDS from 16 per cent to 12 per cent. Customs duty on non-alloy steel was reduced from 10 per cent to 5 per cent. In addition to exemption from CVD, customs duty on ships for breaking was reduced from 15 per cent to 5 per cent.

2.32 As a part of rationalisation and simplification of excise structure and procedures, Government brought drugs and medicines under the purview of levying excise duties on the basis of retail price declared under Drugs (Price Control) Order, 1995. Drugs and medicines are often manufactured on job work basis and also by loan licensees, which leads to differences in assessments.

This notification, which came into effect on January 8, 2005, helps to ensure uniformity in assessments and reduce valuation disputes. Excise duty on drugs and medicines are now levied on the value determined after providing an abatement of 35 per cent on the declared retail price.

2.33 With a view to reducing relatively low priority expenditure and boost non tax revenues, the Ministry of Finance issued "Guidelines on expenditure management-Fiscal prudence and austerity" effective from October 1, 2004. These guidelines stipulate scrutiny of all on-going programmes and schemes and ensuring that all profit making public sector undertakings (PSUs) declare a minimum dividend on equity of 20 per cent or a minimum dividend payout of 20 per cent of post-tax profits, whichever is higher. The guidelines imposed a 10 per cent cut in the budgetary allocations under non-Plan and non-salary expenditure. At the meeting of Finance Minister with the Financial Advisers on October 28, 2004, it was reiterated that only 33 per cent of budgeted expenditure would be permissible in the last quarter of the financial year. Efforts at better cash management in nine high spending Departments/Ministries are being continued. The practice of allowing Central PSUs to park their surplus cash in the Public Account has been dispensed with.