SPEECH OF PROF. MADHU DANDAVATE MINISTER OF FINANCE INTRODUCING THE BUDGET FOR THE YEAR 1990-91

Sir,

1. I deem it a great privilege to have the opportunity to present the first Budget of the new Government.

2. Over a hundred days ago winds of political change swept the country. The new Government, which secured a massive vote of confidence of this Honourable House, transcending political affiliations, made a tryst with the nation to respect and implement the mandate it received from the people.

3. Let me, at the outset, deal with the economic situation that we inherited from the previous Government. I do so not in a spirit of acrimony but with a view to revealing to the House the ground realities. The Central Government's budgetary deficit was Rs.13,790 crores as on Ist December, 1989, a level nearly double the deficit projected for the whole year in the 1989-90 budget. Wholesale prices had risen by 6.6 per cent since the beginning of the financial year. The balance of payment was under strain and foreign exchange reserves (excluding gold and SDRs) were down to around Rs.5000 crores. Stocks of foodgrains had fallen to 11 million tonnes.

4. On a broader scale, the Economic Survey which was placed on the Table of the House only a few days ago deals with the current economic situation. I will not go into details but only highlight a few key points.

5. There has been some slowing down of growth in 1989-90. GDP is expected to rise by 4 to 4.5 per cent, industrial output by about 6 per cent and agricultural output by 1 per cent or so on the peak level reached in the previous year.

6. The price rise this year affects several commodity groups and the pressure of inflation is clearly linked to the fiscal imbalance. The budget deficit and money supply growth have been running well above target. The Revised Estimates for 1989-90, which I will present a little later, indicate that the budget deficit is expected to be substantially higher than Rs.7337 crores projected in the budget estimates for 1989-90. The growth rate of aggregate monetary resources was 16.5 per cent from the beginning of the financial year to 23rd February, 1990.

7. As regards the trade performance this year, exports have grown at the rate of 38 per cent and imports at 21 per cent in rupee terms in the first nine months of the year. But the pressure on reserves continues as the improvement on trade account is not sufficient to counter-balance the increase in debt-service obligations.

8. I have drawn attention to these features in order to highlight the constraints within which the new Government has to look for ways of fulfilling its mandate.

9. The first task of the new Government was to contain the rise in prices. A Cabinet Committee on Prices was formed and effective steps were taken to increase the supply of essential commodities, break the inflationary psychology and contain inflation. The price situation, however, remains a matter for concern and the management of inflation is one of the priority areas for this Government.

10. Adequate stocks of foodgrains are essential for maintaining price stability and our economic security. The Government has given a high priority to stepping up procurement efforts and to rebuilding of stocks. As a result, the procurement of rice has touched a new high of about 10 million tonnes already. Foodgrains stocks in the central pool have been augmented and stand at 11.67 million tonnes at the beginning of February compared to 8.34 million tonnes at the same time last year. Special attention has been given to increasing supplies of essential commodities and streamlining the Public Distribution System. Market intervention operations are being undertaken to stabilise open market prices of some sensitive commodities.

11. Another major problem before the country is the strain on our balance of payments position. In the last few years, large trade and current account deficits have been financed through depletion of foreign exchange reserves and growing recourse to foreign borrowings. To combat the pressures on the balance of payments and to ensure a viable situation over the Eighth Plan period, exports must command the highest priority. The alternative of higher foreign borrowing to finance our essential import requirements runs the risk of mortgaging our hard won economic independence. This is clearly unacceptable. Therefore, the new Import Export Policy 1990-93, to be announced on 1.4.1990, will accord top priority to exports and will give special encouragement for exports which earn high net foreign exchange. The priority for exports will also be reflected in our industrial policy and later I will outline some fiscal measures to promote export production.

12. Our import bill for bulk items is increasing rapidly. The oil consumption, for example, has been rising at the rate of around 8 per cent in the recent past. There has been a huge outflow of foreign exchange on this account. India's foreign debt has been doubled in the last five years. This has added to our vulnerability. The trend has to be reversed. I am convinced that our people will make any sacrifice and meet any challenge in order to preserve our economic independence and spirit of self-reliance. We are ready to go through a period of austerity and hardship in order to avoid excessive foreign borrowings.

13. The fiscal imbalance is the root cause of the twin problems of inflation and the difficult balance of payments position. One of the targets of the Seventh Five Year Plan which was over achieved was deficit financing. While the projected deficit in the 7th Plan period was Rs.14000 crores, in reality it was more than double.

14. The management of the deficit will require the containment of expenditure growth. 1 can assure the House that we will spare no effort to reduce the burden of administrative expenditure. * But the restraint of expenditure also requires careful consideration of other areas of public spending which involve implicit or explicit subsidies. We have to ask ourselves whether these subsidies are really reaching the people they are meant to serve or whether there is a better way of providing the same benefit.

15. On the revenue side, the real issue is of tax compliance. Tax evasion is rampant. This generates black money and has other serious adverse effects on the economy, such as fuelling inflation and conspicuous consumption. Black money is also generated by shortages, artificially pegged prices and detailed physical controls. The "leakages" from public expenditure programmes also cause serious distortions in the economic and social structure of our society.

16. We will launch a sustained and multi-pronged drive against proliferation of black money which is a social sin and an economic evil. To improve tax compliance, we shall combine reasonable tax rates and simpler tax laws with effective tax administration and strong deterrents against evasion. The Revenue Department is being instructed to pay special attention to vulgar display of ill-gotten wealth, particularly on occasions, such as wedding receptions. We will come down with a heavy hand on those who give vent to their pomp and money power, by circumventing our laws and frittering away the scarce resources of the nation. The Economic Intelligence Bureau is being revamped to coordinate action against tax evaders and black money operators. The Act on "benarni" transactions will be recast to make it more difficult for economic offenders to hold wealth in "benami" forms.

17. Administrative curbs against black money must be backed by economic measures. We must reduce the scope of discretionary powers which provide sustenance to black money. Our economic policies will place greater reliance on general, non-discretionary, fiscal and financial instruments and will reduce the role of ad hoc discretionary physical controls.

18. I have also received some suggestions from Honourable Members and fiscal experts on incentive scheme for "unearthing" of black money and channelling it into desired directions. The advantage claimed for such schemes is that, instead of being used for conspicuous consumption or unproductive investment, the unaccounted money can be diverted to create jobs or to serve some other socially useful purpose. The disadvantage is that these schemes generally provide for a more concessional tax treatment of the black money than the rates normally applicable. The different schemes tried out in the past did not yield much and were open to misuse. Human ingenuity manifests itself in strange ways. In the past, it found expression in converting the bearer bonds, issued with the laudable objective of bringing out black money, into alternate currency that exchanged hands at a premium. Thus the instrument to render

black money white was itself used with vengeance to reconvert white money into black!

19. Nevertheless, in the present situation, when our needs are large and resources are tight, there is perhaps a case for introducing a time-bound scheme which would permit undeclared incomes and hidden wealth to be used for one or more social purposes, such as, slum clearance, building of houses for lower and middle income groups, and setting up of specified agro-based industries in rural/backward areas. Subject to certain conditions, the source of monies declared under this scheme need not be questioned. There could be a suitable flat rate of tax on such income.

20. The Government would like to have a thorough debate in the Parliament before introducing a scheme of this type. I would very much welcome the views of the Honourable Members during the budget debate. In the light of these discussions the Government will take the final decision.

21. Domestic trade in gold is regulated under the Gold Control Act which was introduced in 1963 with the broad objective of curbing the demand for gold. The Act has been largely ineffective. It has also caused hardship and harassment to small goldsmiths. There is not much point in continuing with such an ineffective legislation. The Government, therefore, proposes to abolish the Gold Control Act. This step would benefit many artisans and small goldsmiths all over the country. At the same time, we will use the Customs Act more vigorously to prevent smuggling of gold.

22. Let me now turn to some issues of long-term development.

23. In the traditional growth pattern, while the poor at the grass root level suffered in silence without much benefit of growth trickling down to them, the affluent at the. top lived in splendid isolation and monopolised most of the gains of economic growth. The new Government rejects this trickle down theory of development. Instead, it would work for growth with equity ensured through employment oriented planning in which the decentralised institutions, of the four pillars state, aptly described by Dr. Ram Manohar Lohia as the 'Choukhamba Raj' will play a pivotal role.

24. Our first priority is employment In the eighties, our economy grew at around 5 per cent or more. But, according to a recent report of the National Sample Survey the number of persons who are chronically unemployed increased from 8 million in 1983 to 12 million in 1987-88. In addition, there are a vast number who are underemployed and whose earnings from work fall well short of a decent minimum. We believe that "every citizen has the right to productive and gainful work in order to live meaningfully and with dignity". We would like to introduce an Employment Guarantee Scheme. However, the cost of doing so in all parts of the country are huge, and we do not have the necessary resources at this juncture. Nevertheless, it is proposed to make a beginning on an Employment Guarantee Scheme for the drought prone areas and areas with an acute problem of rural unemployment The allocation for the

employment schemes of the Department of Rural Development will be supplemented, to the extent feasible, during the course of the year.

25. Faster growth of agriculture must be an important part of this strategy. We have achieved impressive growth in yields in the areas of good irrigation but yields remain very low in large harts of the country which are rainfed or semi-arid. Our strategy for agricultural development must focus on increasing output in these areas through greater investment in irrigation, land development, and soil and moisture conservation. These investments will increase production. They will also generate greater absorption of labour in agriculture. Parallel to this effort, regions of high productivity should aim at diversification of agriculture and development of agro-based processing industries. This will provide the economic linkages between the rural economy and growing markets in urban areas, as well as potential markets abroad.

26. The country had adopted an Industrial Policy Resolution in 1956, which through the years, has governed our broad strategy for industrial development. It is surprising that there is no similar Agricultural Policy Resolution. Ibis Government will remove this lacuna. We will lay the basic foundations of agricultural development through the adoption of an Agricultural Policy Resolution. This will represent our national commitment in respect of a sector which is the hub of our economy. We invite all sections of the people to interact with the Government on the formulation of this Policy Resolution.

27. We are committed to ensuring that 50 per cent of the investible resources are deployed for the development of agriculture and rural development We have made a beginning, in this year's Central Plan in which the share of the rural sector in budgetary support for the Central Plan will go up from 44 per cent in 1989-90 to 49 per cent in 1990-91. In addition, on the non-Plan side we are providing Rs.1000 crores for debt relief, and Rs.4000 crores for the fertilizer subsidy, which also go to benefit rural areas.

28. The steps for the inclusion of the land reforms legislation in the Ninth Schedule of the Constitution have already been initiated and the necessary constitutional amendment will be introduced. Simultaneously, various measures for the restructuring of the land relations are being worked out and we hope to initiate steps in this direction after due consultation with the State Governments.

29. Over the years, poor farmers, artisans and weavers have accumulated debt which they are unable to repay. They have been caught up in a vicious circle of indebtedness and low incomes which keeps them in perennial poverty. In order to relieve our farmers from the burden of debt, an assurance was given in the National Front's manifesto that relief will be provided to farmers with loans upto Rs.10,000 as on 2nd October, 1989. I am glad to inform the House that we are now ' ready with the scheme of implementation of debt relief to fulfil the promise, and redeem the pledge given to the kisans and artisans.

30. It is proposed to introduce a scheme for providing debt relief which will have the following features. The relief will be available to borrowers who have taken loans upto Rs.10,000 from public sector banks and Regional Rural Banks. The relief will cover all overdues as on 2nd October, 1989 including short-term as well as term loans. There will be no limit on the size of the borrower's land holdings. However, wilful defaulters, who in the past did not repay loans despite their capacity to do so, will be excluded. The Central Government will compensate the public sector banks and Regional Rural Banks suitably for the debts which are thus written off. Many of those who filed insolvency petitions and had taken loans below Rs.10,000 which were overdue as of 2nd October, 1989 will also be covered under the scheme.

31. The State Governments may also wish to introduce a scheme on the same lines in respect of cooperative banks within their purview. Subject to the constraint of resources, the Central Government will consider suggestions for helping State Governments in implementing a debt relief scheme on the same pattern in respect of cooperative credit institutions under their control.

32. I consider the debt relief measure as a positive step which will enable our farmers, artisans and weavers to increase their productivity. It is at the same time necessary to ensure that there is no erosion of the credibility of the banking system. Once the past over-dues are cleared, it is reasonable to expect that loans taken for current operations will be serviced promptly. The Scheme should contribute to better agricultural recoveries and better identification of wilful defaulters, who do not deserve any sympathy. Banks are being asked to set up a system of maintaining a proper credit history of their borrowers covered under the Scheme. The Government would also like to make it clear that the Scheme will not be extended nor will it be repeated.

33. The Government proposes to introduce changes in the formula for computing costs of production of agricultural crops for price fixation so as to take full account of all costs. In particular the formula will take into account

(1) valuation of labour (including family labour) on the basis of statutory minimum wage, or actual wage, whichever is higher,

(2) the remuneration for the managerial and entrepreneurial efforts of the farmer,

(3) adjustment of procurement/support prices for the escalation in input costs between the announcement of the prices and the arrival of the crop in the market.

The new formula will be reflected in the procurement support prices to be announced for the next kharif season. As procurement prices are revised in line with costs, the revision of issue prices is also unavoidable. In future, the Government will announce revision in procurement and issue prices at the same time even though these may take effect on different dates.

34. The threat to our environment can no more be ignored. It has been estimated that around 130 million hectares of land is degraded through soil erosion, salinity, total loss of tree cover, etc. Our forests are under pressure from a variety of sources. In urban areas, air and water pollution from industry, transport and other sources is widespread. A healthy environment is part of the quality of life and a productive environment is the basis for development. Our emphasis on rural development and decentralisation will allow us to integrate environmental considerations into the design of development.

35. Let me now turn to another area of great concern-that of unemployed youth. All of us who travel in our constituencies have seen the plight of young people able and willing to work, but unable to find employment. A long-term solution to this problem has to come from a shift to a more employment-oriented growth strategy. But as an immediate step we have decided to give a boost to measures which will assist the youth of this country to acquire the skills that will improve their prospects for gainful employment. A comprehensive Vocational Training Project has been taken up covering 28 States and Union Territories. The Project will improve the quality of craftsmen training, apprenticeship training and advanced training of industrial workers. We also propose to link training and the provision of credit support for self-employment.

36. Under the leadership of Dr. B.R. Ambedkar thousands belonging to the Scheduled Castes had embraced Buddhist religion in 1956 to seek liberation from caste oppression to which they were subjected for centuries. However, in the eyes of the orthodoxy the social stigma on the Scheduled Castes was not erased even after their conversion to Buddhism. It has, therefore, been decided by the Union Government that all the facilities and privileges that were available to the Scheduled Castes will be available to them from the Union Government even after their conversion to Buddhism.

37. A strategy for greater absorption of labour in agriculture has to go hand in hand with faster growth of industry and balanced development of infrastructure, specially power and transport. It is self evident that higher investment and faster growth in incomes in agriculture can be sustained only if industrial production increases to meet the rising demand for inputs and wage goods in particular. This Government will give priority to accelerating industrial growth in a competitive and non-monopolistic environment. The Government will review and simplify the Industrial Licensing Policy to ensure that licensing does not become an instrument for preventing competition and perpetuating monopolies.

38. The Khadi, Village and Small scale sector has a special role to play in any strategy for employment-oriented industrial development. We will work for the harmonious development of cottage, small and large industries and give protection against encroachment of large scale on small scale and small scale against cottage wherever necessary.

39. The withdrawal of the 15 per cent Central Investment Subsidy for Backward Areas has affected the growth of small scale industries. We must take industry to the people and not people to the industry. We propose to reintroduce a Central Investment Subsidy for small scale units in rural areas and backward regions.

40. A major problem faced by small industries is delay in the settlement of bills by large units. The provision of factoring services in which the task of realisation of the bill is taken on by an intermediary is one way of mitigating this. The House will be glad to know that some steps towards this end have already been taken by the Reserve Bank of India.

41. The problems of women entrepreneurs in the cottage and small sector are of particular concern to us. The provisions regarding margin money and seed capital for women entrepreneurs will be reexamined and liberalised.

42. There is a single window scheme for grant of working capital along with term assistance to new projects in the small scale sector by State Financial Corporations. This arrangement facilitates setting up of small scale units without waiting for finalisation of working capital limits from banks. The present limits of project cost for determining eligibility for such composite loans is being raised from Rs.5 lakhs to Rs.10 lakhs.

43. Reserve Bank has issued guidelines for provision of credit and rehabilitation of viable small scale units. These guidelines, are intended to assist the small scale sector and not create hurdles in its path. Banks are being asked to implement them faithfully.

44. The public sector is vital to our country's development. It has played a major role in broadening the base for industrial and technological development in this country. The overall working results for the first six months of this financial year show a significant improvement in net profit from Rs.694 crores last year to Rs.1103 crores this year. In 1990-91, Central sector enterprises will finance 46 per cent of their plan investment from internal resources. We are committed to making the public sector more efficient and result-oriented so that it can generate more surpluses which can be ploughed back for development.

45. The health of the public enterprises depends crucially on the commitment of its employees and their full participation in management. It has been suggested that one way of securing this is to give workers a share in ownership either through stock option schemes or sale of shares to workers or to trusts owned by workers. Since the equity of public enterprises is not quoted in the market, arrangements will have to be worked out to determine the sale and purchase price of such worker's shares. I invite suggestions from Honourable Members on the merits of this idea and how it could be implemented.

46. We are also firmly committed to the healthy development of capital markets, and to strengthen the role of public financial institutions. The institutions will be given functional autonomy. However they must also be accountable for their actions. The institutions will not be party to corporate battles and clandestine takeovers. The government would like to create an atmosphere and a culture where financial institutions can function objectively without fear or favour.

47. There has been some concern about the role of financial institutions in relation to their intervention in the capital market. I have asked these institutions to frame suitable guidelines so that their actions are not only objective but seen to be so. Each financial institution is expected to operate in the interest of its depositors and investors consistent with national priorities. There may be occasions when there is an abnormal and persistent upward or downward movement in share prices because of concerted bull or bear pressures. In such situations, the financial institutions will play a stabilising role in the capital market.

48. The growth of banking since nationalisation has been phenomenal. The banking system has been extended to the remotest part of our country. Banks are now playing a vital role in mobilising peoples' savings and channelling them into productive areas. At the time of nationalisation, only 14 per cent of the bank credit was provided for the priority sector covering sections, such as, agriculture, rural development and small industries and businesses. Today, this proportion is nearly 45 per cent. This is the measure of the success of nationalisation.

49. There is one aspect of banking operations which is of concern to me. This is the low credit deposit ratio in some regions. A variety of factors determine this ratio. I have asked the Reserve Bank of India to pay special attention to this problem and further improve credit delivery in such areas consistent with financial discipline.

50. Our bank managers and employees are, as a group, the most qualified, dedicated and hard working. But it is also a fact that the level of public satisfaction with the banking services is not as high as it should be. Over the years, perhaps some structural rigidities have crept in. These need to be removed. There is need for greater competition and greater operational flexibility in respect of banking services. The banking culture has to be made more responsive to the needs of the public. I am requesting the Reserve Bank of India to set up a Committee of Bankers, bank employees, depositors and borrowers to consider these aspects and make recommendations to the Government.

51. The previous Government had announced the formation of the Securities Exchange Board of India (SEBI) in 1987. Three years have passed and the legislation for giving statutory authority to SEBI has not been introduced. We will ensure that this is done in this budget session.

52. Science and technology is the mainspring of development. We are proud of the capabilities that we have built up in critical areas like agriculture, space research,

atomic energy and defence. We will aim at utilising the talent of our scientists and engineers towards two basic ends: ,

- the development of appropriate technologies for agriculture, non-conventional and renewable energy and other employment intensive activities,
- the establishment of a strong base of self reliance in critical areas of modern technology.

Public spending on R & D, incentives for the use of indigenous technologies and policies to guide private research efforts will be oriented towards these objectives.

53. There is a large community of Indians settled abroad. They have achieved tremendous success in their chosen professions and occupations. True to the rich tradition of our ancient culture, their physical location has not weakened the strong intellectual, philosophical and social links that they have with the country of their origin. The Government will continue to provide special facilities for them to invest their savings in this country. The procedures will be simplified so that they can function with a sense of confidence and in line with declared national policy.

54. Let me now turn to the Revised Estimates for 1989-90 and the Budget Estimates for 1990-91.

Revised Estimates for 1989-90

55. Revised Estimates of Expenditure for the current year show an increase of Rs.5620 crores over the Budget Estimates. Of this, Rs.4958 crores are on non-Plan account and Rs.662 crores on Plan account.

56. Honourable Members are aware of the strains on our security environment which unfortunately coincide with the strains on our economy. Hence, on the non-Plan side, Defence Services are being provided additional Rs.1500 crores to meet their essential requirements and committed expenditure. The provision for fertilizer subsidy will be Rs.950 brores more, mainly due to larger imports and clearance of arrear claims. There is an increase of Rs.276 crores in food subsidy, mainly for clearing arrears due to Food Corporation of India. An additional provision of Rs.468 crores has been made for export promotion and market development. Interest payments will be Rs.710 crores higher. The Government is of the view that the amount of compensation to be paid to the victims of the Bhopal Gas tragedy under Court order is too meagre for the magnitude of sufferings of these innocent people. The matter is under review in Court and in the meantime Government have decided to pay interim relief for the victims for which a provision of Rs.320 crores has been made which, inclusive of bank interest over a period of 3 years, will amount to Rs.360 crores. The increases are partly offset by savings in some areas notably in the lump sum provision made for dearness allowance consequent on transfer of liability on this account to the budget of the Ministries/Departments.

57. On the Receipt side, while collection from Corporation Tax and Customs duties are expected to more or less reach Budget estimates, the receipts from Union excise duties are estimated to be Rs.599 crores less than the budget. Income-tax collections, on the other hand, are expected to be more by Rs.755 crores. States' share of taxes including the sums payable to States on the basis of collection figures certified by the C&AG for the earlier years are placed at Rs.13232 crores against Rs.12438 crores at the budget stage, i.e. Rs.794 crores more. The shortfall in net revenue receipts is expected to be more than off set by larger receipts from small savings, provident fund collections and special deposits of non-government provident funds, etc.

58. The overall deficit for the current year is now estimated at Rs.11750 crores against the budget estimate of Rs.7337 crores.

Budget Estimates for 1990-91

59. The next financial year is the beginning of the Eighth Five Year Plan. This Government is irrevocably committed to planned economic development, and to making the plan more meaningful to the people. As a part of the new strategy, in the next year's Plan, we have provided more for those programmes and schemes which benefit the people directly. We have favoured those programmes that create more jobs, generate self-employment opportunities, improve the living environment in our villages and strengthen our agriculture. This is the surest route to overcome poverty. An increase of 31.7 per cent on last year's budget estimate is being provided for Agriculture and Allied Services, without taking into account the budget provision of Rs.1000 crores for the debt relief for farmers, weavers and artisans. The allocation for anti-poverty programmes, which are spread over different budget heads is being increased by about 23 per cent over last year's budget estimate. This includes the outlay for employment programmes in rural and urban areas which is being increased by 30 per cent on last year's budget estimate.

60. We have a firm commitment to accord highest priority to agriculture and rural development and our thrust and actions are in conformity with that commitment.

61. For the Central Plan 1990-91, I propose an outlay of Rs.39,329 crores - an increase of Rs.4,883 crores or 14.2 per cent over the current year's outlay. Of this, Rs.17,344 crores will be provided as budgetary support and the balance of Rs.21,985 crores will be mobilised by the public sector enterprises through their internal resources as well as borrowings.

62. For the year 1990-91, an outlay of Rs.905 crores is proposed for the Department of Agriculture and Cooperation which represents an increase of 17.5 per cent over the budget estimates for the current year. In addition, I am also proposing an outlay of Rs.155 crores for agricultural Research and Education compared to the provision of Rs.110 crores in 1989-90 - an increase of 41 per cent.

63. I have already referred to the intention of the Government to make a beginning in respect of an Employment Guarantee Scheme. The Annual Plan outlay proposed for the Department of Rural Development is Rs.3,115 crores. It is my intention to provide some additional funds, within the constraint of resources, to enable an Employment Guarantee Scheme to be introduced in selected areas.

64. The Government is pledged to securing a fair deal for the most oppressed, exploited and deprived sectors of the society, namely, the Scheduled Castes and Scheduled Tribes. It is proposed to make a provision of Rs.320 crores for the schemes for Scheduled Castes and Scheduled Tribes in the Annual Plan 1990-91 as against Rs.269 crores in 1989-90 BE. The Special Central Assistance to Special Component Plans and Tribal Sub-Plans of States has also been increased.

65. The Government would intensify the efforts for eradication of illiteracy. The very fact that millions of voters in the country have to identify the names of candidates on the ballot papers only from the election symbols is itself a symbol of the extent of illiteracy. We have made 25 per cent increase in allocation for National Literacy Mission. Special attention to vocational programmes at all levels will be given. The process of modernisation of technical education, and support to thrust and frontier areas in science and technology will be maintained. I am proposing an outlay of Rs.865 crores for the Department of Education during 1990-91.

66. In all the programmes of health and family welfare services, special attention will be paid to the needs of the rural people. I am proposing an outlay of Rs.950 crores for the Ministry of Health and Family Welfare for 1990-91

67. The Government attaches great significance to the welfare of the weak, the poor and the deprived living in the urban areas. Major initiatives for employment, low cost sanitation for liberation of scavengers and provision for night shelters are proposed to be launched. The plan outlay of the Urban Development Sector is being increased to Rs.272 crores in 1990-91 from Rs.89 crores in 1989-90BE for this purpose.

68. The Annual Plan outlays for 1990-91 for the infrastructure sectors are proposed to be stepped up. The outlays for Petroleum and Natural Gas is proposed to be increased by 18.6 per cent, Railways by 12.4 per tent and Power by about 10 percent.

69. The details regarding Central Plan outlays for these and other sectors are in the Budget documents. I do not wish to take the time of the House in making my speech a substitute for the-voluminous budget documents, and thus deprive the Members of the excitement of reading these documents'.

70. Honourable Members will be happy to know that the Central assistance for State and UT Plans next year will be Rs.12,848 crores, including the Plan revenue grants recommended by the Finance Commission as against Rs.10,450 crores excluding drought assistance provided in Budget Estimates for the current year. Ibis represents a substantial step up of 22.9 per cent.

71. Budget Estimates for the next year provide Rs.64,515 crores for non-Plan expenditure as against Rs.59,220 crores in Revised Estimates for the current year. The main increase next year is under interest payments provision for which goes up from Rs.17,710 crores this year to Rs.20,850 crores next year.

72. The Government have appointed a Committee to consider the issue of One Rank One Pension in all its aspects. The Report of the Committee is expected by end of March, 1990 and government will take further action thereafter.

73. For Defence Services, a provision of Rs.15,750 crores has been made in the Budget Estimates. This increase in the defence expenditure is not of our choice. It is the direct result of the situation on our borders.

74. Freedom struggle is indivisible and therefore it has been decided that those who fought for Goa's liberation from the Portugese rule will be eligible for Union Government's pension and all other benefits available to other freedom fighters.

75. The Ninth Finance Commission has submitted its second report covering the period 1990-95, a copy of which was laid on the Table of the House last week along with a statement of decisions of Government on the recommendations. These have been taken into account while framing the Budget for next year. The recommendations of the Finance Commission accepted by Government will cast an additional burden of the order of Rs.773 crores on the Central Budget in 1990-91.

76. Government are alive to the important issue of checking proliferation of Government expenditure especially in non-priority and non-developmental areas. I am requesting all the Ministries and Departments to absorb the liabilites on account of additional instalments of D.A. which will be payable next year from within the budget provisions made for them by effecting economics and eliminating non-essential expenditure. I am, therefore, including only a nominal provision of Rs.100 crores in the next year's budget as lump sum provision for D.A. This is mainly to meet the possible requirements of small Departments with limited budgets who may not find it possible to absorb D.A. increases to the full extent.

77. On the Receipts side, Gross Tax Revenue at the 1989-90 rate of taxation is estimated at Rs.57988 crores and the net tax revenue after payment to States of their share of taxes is placed at Rs.43507 compared to Rs.37798 crores in the Revised Estimates for die current year.

78. I have taken a credit of Rs.8000 crores on account of market borrowings as against Rs.7,400 crores in the current year. External assistance net of repayment is expected to be of the order of Rs.4327 crores in the next year as against Rs.3901 crores in the current year. Taking into account the other variations in receipts and expenditure the overall deficit for next year at the 1989-90 rate of taxation is estimated at Rs.9165 crores.

PART B

79. Having taxed your patience so far, now let me turn to other areas of taxation and reliefs for which you must have been waiting impatiently. Let me begin with my proposals in respect of direct taxes. I am introducing certain major changes in the rate structure for personal income-tax with a view to providing relief to low and middle income groups, and to make the savings linked incentives more equitable for taxpayers in different income slabs. My first proposal to raise the exemption limit is in fulfilment of a promise made in the National Front manifesto. I am raising the exemption limit for personal income taxation from Rs.18,000 to Rs.22,000. Roughly, one million persons will go out of the tax net as a result of this change. In deciding the new limit, I have had to balance two conflicting considerations. On the one hand, it is a fact that the lower income groups have been affected the most by price rise, and there is a case to raise the exemption limit. On the other hand, an increase in the limit narrows the tax base and involves substantial loss of revenue as the benefit of the increase is spread over all taxpayers, and is not confined to the lower end of the income levels. Experts have often argued that keeping in view our per capita income, raising of the exemption limit is not justified. However, as I temperamentally prefer to avoid taking extreme positions, I have chosen the middle course which I believe is fair and reasonable.

80. As further measure of relief to the lower and middle income groups, I am extending the lowest rate of 20% from the present limit of Rs.25,000 to Rs.30,000.

81. Last year, a surcharge at the rate of 8 per cent was introduced for financing employment programmes. Dropping this employment surcharge would have brought into question my irrevocable commitment to employment oriented planning. I, therefore, have no choice but to continue this surcharge. This will now be applicable beyond taxable income of Rs.75,000 as against the present limit of Rs.50,000.

82. As the Honourable Members are aware, the existing schemes of tax incentive to promote savings are based on deductions from income. A person gets tax relief at the highest marginal rate of tax applicable to him. Accordingly, it confers higher amount of tax benefit to a person with higher income vis-a-vis a person with a lower income. With a view to removing this inequity, I propose to introduce a system of tax rebate on the gross amount of savings under section 80C. Under the new system, a person contributing to provident fund, life insurance, National Savings Certificates, etc. as earlier, will now be entitled to a tax rebate calculated at the rate of 20%, on such savings. The maximum tax rebate allowable will be Rs.10,000 generally and Rs.14,000 in the case of authors, playwrights, artists, musicians, actors, sportsmen and athletes. This is broadly equivalent to she maximum relief available now. All persons will get the same amount of tax benefit on a given amount of savings, irrespective of their levels of income. The low income taxpayer will benefit.

83. Let me illustrate the impact of the above proposals. A person with a salary income of Rs.3,500 per month, i.e. Rs.42,000 per year, who saves Rs.8,000 per year in provident fund and insurance presently pays Rs.1,000 per year as tax. Under the new dispensation, he will not have to pay any tax at all. The upper income group will have to save Rs.50,000 to get the full relief of Rs.10,000. Under the old system they would have got the same relief by saving only Rs.39,500. I may mention in passing, that the new system of a uniform tax rebate will also lead to a substantial simplification in tax deduction at source by employers.

84. As a further incentive to save, I propose to increase the limit available for the savings incentives under section 80CCA from Rs.30,000 to Rs.40,000. Since the savings under this are on a 'netting' principle and are added back to income when withdrawn, the present system of deduction from taxable income will continue.

85. In addition to this, the Equity Linked Savings Scheme (ELSS) announced last year has how been finalised on a 'netting' principle. Investment in units under the Scheme, will be eligible for deduction upto a maximum of Rs.10,000 from the total income. The annual return on the investment in the units will be eligible for tax concession under section 80L. On repurchase of the units by the Mutual Funds, the capital amount representing the cost of the units win be taxed as income in the year of repurchase and the excess will be liable to tax as capital gains. The Equity Linked Savings Scheme will eventually replace the present deduction under section 80CC. Meanwhile, this provision is being extended for investments made upto 31st March, 1991.

86. In an effort to mitigate in some small measure, the hardship of parents or guardians of physically handicapped or mentally retarded persons with incomes upto Rupees sixty thousand per annum, I propose allowing a deduction of Rs.6,000 from the parent's or guardian's total income to cover expenses on medical treatment, training and rehabilitation of such persons.

87. I propose to increase the deduction in respect of professional income from foreign sources, available to authors, playwrights, artists, musicians, actors and sportsmen including athletes, from the existing rate of 25% to 50% of the income, or 75% of the foreign exchange brought into India, whichever is higher. In the case of professors, teachers and research workers also, the present provision has been liberalised to allow deduction of 75% of the foreign exchange brought into India.

88. I will now make my proposals in regard to corporate taxation. The corporate sector has often claimed that the rate of Corporate Tax is high and that this inhibits growth as well as tax compliance. On closer scrutiny, I find that the rate is only seemingly high, because the system provides too many exemptions. After all the admissible exemptions and deductions, the effective rate falls drastically. Many large and high profit making companies had been able to escape the tax net and were paying zero tax for a long time. That is why the contribution of the corporate sector to tax

revenue was not commensurate with the profits they earned; nor with the needs of national development. The tax system also tilted the balance in favour of capital intensive production.

89. To ensure better tax compliance, I propose a twin strategy. I am abolishing major incentives like Investment Allowance and Investment Deposit Account with a view to closing the escape route for the corporate sector to go out of the tax net; and having closed that route, I propose to fix the tax rate for widely held domestic companies at 40% with corresponding changes in rates for other domestic companies. This twin strategy will raise the effective tax rate and will also give substantial additional revenue of Rs.800 crores.

90. The only major deductions that will now be permitted are those relating to foreign exchange earnings and for setting up new industrial undertakings. The deduction for setting up new industries is being raised from 25 per cent to 30 per cent in the case of companies and from 20 per cent to 25 per cent for others. The period during which the benefit can be availed of is being extended from 8 to 10 yew.

91. With the abolition of the major exemptions, there is a case for also removing the special provision regarding tax on minimum profits contained in section 115 of the Income-tax Act. Accordingly, I propose to discontinue that provision with effect from the assessment year 1991-92.

92. I am also introducing an important change in the taxation of inter-corporate dividends. At present 60% of the dividend income received by a domestic company from another is exempt from tax. There is a tendency towards holding of personal wealth in the form of companies which are in effect closely-held. In order to encourage genuine investment activity while at the same time discouraging the use of corporate framework for holding personal wealth, I propose to exempt dividends received by domestic companies from other domestic companies to the full extent to which they themselves declare dividends during the relevant period. However, scheduled banks and public financial institutions would, in substance, continue to be governed by the provisions of section 80M as they presently stand.

93. The result of the reform of the corporate tax system proposed by me will be to increase the buoyancy, simplify the tax structure and make it neutral as between small and large companies. At the same time, it will provide strong incentive for export and for investment in new industrial undertakings.

94. Many small scale industries are organised as partnerships. I propose to raise their exemption limit from Rs.10,000 to Rs.15,000 and to lower the tax rates suitably.

95. Restoration of ecologically degraded areas fulfils the objectives of employment generation, enhances the supply of fuel wood and fodder and also contributes to the overall social, economic and environmental stability of the rural

areas. In order to promote afforestation, I propose to extend the provisions of section 35CCB and section 80GGA to taxpayers who contribute to a fund or programme for afforestation approved by the prescribed authority.

96. As in the case of personal income tax. I propose to continue the existing surcharge of 8% on corporate taxpayers also on all incomes above Rs.75,000.

97. I also propose to make a major change in the taxation of gifts. At present, gifts are taxed in the hands of the donor, but there is no limit on the amount which a donee can show as having been received by way of gifts. Because of this, the mechanism of gifts is used to split up capital and launder black money. Some instances have also come to notice recently where attempts have been made to explain away wasteful and ostentatious expenditure on marriage receptions and other functions as having been financed out of gifts. With a view to curbing such practices, I have decided to substitute the present gift-tax on donors with a donee based gift-tax. Any person, who claims his assets or his expenditures as having been financed from gifts, will now be liable to a gift-tax on a graduated scale. Thus he will have the pleasure of transferring a part of his bounty as a gift to the exchequer.

98. The primary purpose of the donee-based gift-tax is not to raise revenue but to check tax evasion and conspicuous consumption. In order to take care of legitimate gifts, there will be a basic exemption limit of Rs.20,000 per year. In the case of total gifts exceeding Rs.20,000 but not exceeding Rs.50,000, gift-tax will be levied at 20 per cent; for total gifts exceeding Rs.50,000 but not exceeding Rs.2,00,000 at 30 per cent; and for total gifts exceeding Rs.2,00,000 at 40 per cent. In addition, I also propose to allow for a substantially higher limit of rupees one lakh for gifts received from all sources by an individual at the time of marriage. Further, gifts received in foreign exchange through official channels will also be exempt.

99. I propose to make the new system applicable in respect of gifts made on or after 20th March, 1990. Consequently, the existing Gift-Tax Act taxing the gifts in the hands of donors will cease to be operative in respect of gifts made on or after that date.

100. Legislation to give effect to this new scheme is proposed to be introduced during the current session of Parliament.

101. I do not propose to take up the time of the House with other minor changes in the Direct Tax Laws.

102. As I mentioned earlier, there will be a gain in revenue from corporate tax to the extent of Rs.800 crores. The loss in revenue from income-tax other than corporate tax after providing for better compliance is expected to be Rs.250 crores. There will, therefore, be an additional accrual of Rs.550 crores in respect of direct taxes.

103. Sir, I shall now deal with my proposals relating to indirect taxes. The main thrust of the proposals is on simplification and rationalisation. Simultaneously, I have also attempted to mobilise some resources in a manner dud does not hurt the common man and at the same time helps to curb elitist consumption. A major emphasis has been on strengthening impulses for growth and exports. Significant changes in duty structure are also proposed to develop a quality culture in our industry. I have also not failed to give relief to the deserving sectors, particularly small scale industry, agriculture and environmental protection. All these measures have been described in some detail in the Explanatory Memorandum to the Finance Bill and I shall deal briefly with the more important of these proposals.

104. Presently, the import duty rates are widely dispersed. With a view to rationalising the rates and bringing down their multiplicity, the total of the basic and auxiliary duty rates of customs are being placed in a limited number of slots in the range of zero to 125% in respect of most items. Further, as a step towards rationalisation and simplification of the Central Excise Tariff, the duty rates are proposed to be recast for a large number of goods. Though as a result of the rationalisation, the duty rates on certain commodities may marginally go up or down, the proposals on the whole are intended to be broadly revenue neutral. The reduction in 6e number of rates in each Chapter of the Tariff will simplify assessment. It will be our endeavour to ensure a measure of stability for the ad valorem rates.

105. First, I shall take up the proposals which are in the nature of concessions in customs and excise duties.

106. Agriculture is a priority area in our framework of development and tax rates are already kept low on most of the inputs used in this sector. Specified pesticides and pesticide intermediates enjoy concessional rates of import duty of 70% and 60% respectively. I propose to reduce the import duty on a few more specified bulk pesticides and pesticide intermediates to these levels. The proposal involves a revenue loss of about Rs.16 crores.

107. In order to encourage the use of rape-seed oil and mustard oil, of which there is an abundant production in the country, I propose to completely exempt refined rape-seed oil and mustard oil which are currently attracting excise duty of Rs.750 per tonne. The revenue loss on account of this proposal is estimated to be Rs.8 crores.

108. I propose to remove excise duty on pickles altogether in the hope that this will lend some flavour and spice to my budget.

109. Excise duty on coffee is presently levied at the rates of Rs.78 and Rs.105 per quintal depending upon the variety. As a measure of relief to the coffee growers, I propose to reduce the duty to a uniform level of Rs.50 per quintal. This concession involves a revenue loss of Rs.4 crores.

110. Marine products constitute a major thrust area of the country's exports. In order to make imported prawn feed more economical, I propose to reduce the duty on this item to 25%. In order to help modernisation of food processing and sea food industries, I propose to extend the concessional rate of import duty of 40% now available to certain specified machinery, to a few more items.

111. With a view to reducing the cost of cattle feed, I propose to completely exempt molasses used in its manufacture from the whole of excise duty. I also propose to prescribe concessional import duty of 40% in respect of certain items of equipment required in cattle breeding and dairying.

112. I propose to exempt fully foot-valves of certain specifications from excise duty in order to promote efficiency of agricultural pumps.

113. Presently, kraft paper and kraft paper-board used for apple packaging in Himachal Pradesh, Jammu and Kashmir and Uttar Pradesh are exempted from excise duty, as a measure to conserve forest wealth. I propose to extend this concession to packaging of all horticulture produce all over the country. This is expected to result in a revenue loss of Rs.5 crores.

114. I propose to extend M11 exemption from excise duty to hand made paper and paper board manufactured by units of Khadi and Village Industries Commission even when power is used in the process of sheet forming. I also propose to enhance the value limit for the purposes of excise duty exemption on footwear from Rs.75 to Rs.100 per pair in respect of such footwear made by units under KVIC as well as those run with the assistance of IRDP.

115. In addition to the measures outlined in the earlier part of my speech for the promotion of small scale sector, I also propose to extend some more fiscal concessions to this sector. Presently, small scale units are allowed complete exemption from excise duty in respect of clearance of goods upto a value of Rs.15 lakhs in case such goods fall under only one Chapter of the Central Excise Tariff. I propose to increase this value limit to Rs.20 lakhs. The total exemption available to goods cleared upto a value limit of Rs.30 lakhs, when such goods fall under more than one Chapter of the Tariff, will remain unchanged. The increase in exemption limit for small scale units involves a revenue loss of Rs.67 crores. The scheme of notional credit of 5% in the case of inputs manufactured in the small scale sector is also being continued for one more year from the Ist April, 1990. Further, the limit of value of clearance of goods in a financial year for the purpose of obtaining a central excise licence is being increased from the existing level of Rs.10 lakhs to Rs.15 lakhs. It has also been decided that the licensed small scale units having value of clearances upto Rs.20 lakhs in a year will henceforth be required to furnish only quarterly returns of production, clearance and duty payment. These changes are proposed to take effect from the lst April, 1990.

116. In order to reduce the prices of life saving drugs, I propose to exempt certain finished formulations containing Rifampicin, which is an anti-TB drug, from central excise duty. Specified bulk drugs which are required for the manufacture of certain fife saving medicines are also being exempted from customs duty. I propose to reduce the import duty on certain specified drug intermediates to 90%. These proposals involve a loss of revenue of nearly Rs.17 crores.

117. We are all aware of some recent tragedies involving unhygenically packed intravenous fluids. In order that the pharmaceutical industry is encouraged to employ latest techniques of aseptic packaging, I propose to reduce the import duty on aseptic form fill seal machines for use by that industry from the present level of 147.25% to 40%.

118. Certain life saving equipments are eligible for complete exemption from import duty. I propose to extend this benefit to certain specified instruments and implants for physically handicapped persons. I also propose to give some concessions in customs duty to components of hearing aids.

119. I propose to reduce the import duty on homeopathic medicines as well as on certain inputs for the manufacture of such medicines. This involves a revenue loss of about Rs.5 crores.

120. With a view to giving an impetus to industrial production and to boost exports, I propose to grant some concessions to capital goods and machinery.

121. There has been a feeling-that our exports are not able to face international competition due to high cost of imported capital equipment. A scheme is being worked out for making available to registered manufacturer-exporters the facility of import of capital goods at concessional rate of duty against suitable export obligation. Broadly, capital goods upto a specified value limit imported under the scheme would be eligible to a concessional import duty of 25%. This will be subject to the condition that goods of a minimum of three times the value of the imported capital goods are exported within four years from the date of importation., The details of this scheme will be announced in the new Import and Export Policy.

122. Concessional import duties have been prescribed from time to time on machinery required for various export thrust sectors. I propose to extend the concession to specified items of machinery for rubber belting industry and forged hand tool industry. The concession involves a revenue loss of Rs.8 crores.

123. In order to promote investment and strengthen indigenous capital goods sector, I propose to reduce the excise duty on such machinery on a selective basis by 5 percentage points. This concession will lead to loss of revenue to the extent of Rs.60 crores. I am one of those who believe that the indigenous capital goods sector is integral to our search for self-reliance. 1 hope, the reduction in excise duty will make our capital equipment more competitive and spur modernisation.

124. With a view to encouraging industrial units to invest in quality upgradation and strengthen quality control, I propose to prescribe a concessional import duty of 40% on specified instruments and equipments. The proposal involves a revenue loss of Rs.30 crores. Ibis substantial revenue loss is worthwhile in the interest of improving the quality of indigenous products.

125. In the interest of better environmental protection and pollution control. I propose to extend the present concessional customs duty of 40% to some more specified air and water pollution control equipments. At the same time, I propose to reduce the excise duty on certain specified pollution control equipments from 15% to 5%.

126. Heavy investments are required for the upgradation of the facilities available at the airports. I propose, as a measure of relief, to reduce the import duty on navigational, communication, air traffic control and landing equipments imported by the National Airports Authority of India to a level of 25%. The proposal involves a revenue loss of Rs.7.5 crores.

127. In order, to promote establishment of telecommunication network in rural areas, I propose to reduce the excise duty on specified telecommunication equipment from the existing rate of 20% to 15%. This will lead to a revenue loss of Rs.15 crores.

128. I propose to reduce the excise duty on dry cell batteries from 35% to 30%. The relief will involve a revenue loss of Rs.10 crores.

129. It has been represented that film industry is facing difficulties on account of video piracy. In order to help combat this menace by simultaneous release of prints in a number of cinema houses, I propose to fully exempt feature films from excise duty. The proposal would involve a revenue loss of Rs.8 crores. I hope, with this incentive, the films which had gone into slow motion will regain their lost momentum.

130. In order to give relief to the newspaper industry, I propose to reduce the import duty on standard newsprint by Rs.100 per tonne.

131. As a matter of administrative simplification, I propose to shift the incidence of excise duty from truck body building activity, which is mostly in the unorganised sector, to motor vehicle chassis.

132. Now I move on to a package of proposals relating to the textile industry. These aim mainly at simplifying and rationalising the tariff structure, minimising the scope for evasion and ensuring a lower rate of duty for most varieties of cheaper fabrics. There are essentially two sets of proposals. The first relates to duty rationalisation at the fabric stage and the second, to changes in excise and import duties on man-made fibres and yarns as well as the intermediates used to produce them.

133. There is a growing concern about the plight of the handloom weaver. It is widely believed that one of the main causes of the distress is the neutralisation of the

tax concessions given to this sector by wide-spread tax evasion at the processing stage. There is thus a near unanimous view in favour of transferring the excise duty from fabrics to yam, which I share. However, in the case of man-made fabric, the entire duty is by way of additional excise duty in lieu of sales tax. Therefore, any change in the duty structure can be made only in consultation with the States. I propose to consult the Chief Ministers shortly in this regard.

134. A part of the duty on cotton fabrics is, however, in the shape of basic excise duty. As a first step, I propose to transfer the whole of the basic duty on cotton fabrics to yarn. As the hank yarn used by handlooms will continue to be exempted, the price differential between hank yarn and cone yarn would be widened and this should greatly improve the competitiveness of the handloom sector.

135. Since at present the additional excise duty at the processing stage cannot be shifted to yarn without consultation with the States, I have attempted to rationalise the duty structure on fabrics. The number of slabs in the case of manmade fabrics is being reduced in a manner that the duty on fabrics becomes more equitable and the administration of tax laws more efficient. The rationalisation will also, I believe, greatly reduce evasion and consequently improve realisation.

136. Let me turn to man-made fibres, yams and the intermediates used to produce them. Honourable members will recall that duties were reduced substantially on man-made textiles in 1985 and 1988. While the incidence of taxes was lowered, there have been complaints that the consumer did not get the corresponding benefit I have thus tried to revise die duty structure keeping in mind the ability of different sectors to bear the additional burden. This will also help the competitiveness of the handloom sector where the dominant fibre is cotton. The major changes I am proposing are:

- imposition of a basic excise duty of Rs.4.40 per kg. on PTA and Rs.3.60 per kg. on DMT which will yield Rs.80 crores,
- increase in the basic excise duty on polyester filament yarn from around Rs.50 to Rs.55 per kg. and on nylon filament yam from around Rs.37 to Rs.50 per kg. yielding additional revenue of Rs.156 crores,
- increase in the basic excise duty on viscose staple fibre from around Rs.7 to Rs.8.50 per kg. leading to a revenue gain of Rs.15 crores,
- reduction in the basic duty on polyester staple fibre from around Rs.14 to Rs.8.50 per kg. involving a revenue loss of Rs.65 crores and
- some reduction in the basic duties on various polyester blended yams.

137. In order to ensure a measure of price discipline in this industry, I propose to reduce import duties,

- on DMT and PTA from 195% to 150%,

- on NFY from 130% to 100%,
- on PFY from 205% to 180% and
- on VSF from 55% to 40%.

The revenue loss from these duty reductions will be marginal since actual imports am not expected to be significant.

138. Keeping in view the sharp decline in the international price of MEG, I propose to raise the import duty on this item from 90% to 150%. This will result in an additional revenue of nearly Rs.48 crores.

139. Honourable Members may recall that for providing cheap cloth to the weaker sections of the society and to encourage the development of the handloom sector, additional excise duty under Textiles and Textile Articles Act was levied in 1978. The present rate of this duty is generally 13.64% of the basic excise duty. In addition to this duty, a cess at the rate of 2.5 paise per square metre is levied on fabrics for the purpose of developing khadi and other handloom industries. I propose to merge both these levies by raising the additional duty from 13.64% to 15% of the basic excise duty.

140. There are certain other rationalisation measures relating to textiles including marginal adjustment of duty rates on acrylic fibre, polypropylene staple fibre and filament yarn etc., without significant revenue implications.

141. The jute industry needs encouragement for diversification of its products. I propose to fully exempt jute blankets, floor coverings, mattings and bleached, printed and dyed jute fabrics from excise duty. Full exemption available to jute yam supplied to KVIC units is also being extended to the handicraft sector.

142. I hope, having relished so far the liberal reliefs, the Honourable Members will not now grudge some revenue earning measures.

143. The family members of my smoker friends would, I am sure, be expecting an increase in the rates of excise duty on cigarettes in the interest of the health of the smokers. I will not disappoint them. The increase in duty will be 15 paise for the cheaper cigarettes and 75 paise in the case of costlier cigarettes per packet of ten. There will be no change in the duty rate on non-filter cigarettes of length upto 60 mm. 1 would hasten to add that I do not propose any change in the excise levy on biris. This measure is estimated to yield additional excise revenue of Rs.131 crores. I shall be more than happy if my actual collections are much less due to fall in cigarette consumption.

144. Some sympathetic increase in the excise duty rates on pan masala is also being made to yield additional revenue of Rs.6 crores.

145. I propose to increase the excise duty on cocoa and cocoa preparations from 10% to 15%, on jams, marmalades etc. from 5% to 10% and on ice cream from nil to 10%. The revenue gain from these measures will be of the order of Rs.26 crores.

146. The House will agree that items used by the affluent sections of the society must bear a higher burden of levies. I propose to increase the excise duty on certain items like microwave oven, washing machine, certain sophisticated varieties of audio systems, video cassette recorder and player, electronic games and relatively high priced cooking ranges.

147. I propose to increase the excise duty on motor cars from 35% to 40%. This measure will yield additional revenue to the tune of Rs.79 crores. I do not propose to make any change in the excise duty on two wheelers and tractors.

148. The specific duty rates of excise on refrigerators, air-conditioners of capacity upto 1.5 tonnes and automotive gas compressors are being increased. I propose to enhance the excise duty on car air-conditioning parts including those forming the kit from 40% to 65%. These proposals involve a revenue gain of Rs.14 crores.

149. Tyres and tubes, except for a few varieties, are currently subject to central excise levy at specific rates. On these items, owing to recurring increase in prices, the duty incidence in ad valorem terms has come down. As a corrective measure, I propose to raise the existing specific rates on tyres and tubes. However, I do not propose any increase of duty on tractor, trailer and two wheeler tyres and tubes. This, along with certain other rationalisation measures, is likely to yield a revenue gain of about Rs.40 crores.

150. I propose to raise the specific rates of basic duties of excise on iron and steel. The increase will generally be Rs.500 per tonne in the case of stainless steel items and Rs.100 per tonne in the case of other items. In the case of downstream dutiable products, MODVAT credit would continue to be available. The revenue gain from this proposal is of the order of Rs.104 crores.

151. Presently, the total rate of import duty on most of the stainless steel and articles thereof is 345%. I propose to bring down the rate to the level of 200%. The proposals in regard to customs duties on these and other steel items are expected to result in the loss of revenue to the tune of Rs.10 crores.

152. At present, the country has a surplus production of aluminium. In order to discourage imports, I propose to increase the basic customs duty on aluminium ingots by Rs.3500 per tonne.

153. Major plastic raw materials attract excise duty ranging from 30% to 65%. However, the rate of duty on polystyrene is only 20%. As a measure of rationalisation, I propose to increase this rate to 30%. The proposal is expected to yield additional revenue of Rs.5 crores.

154. I propose to increase the basic excise duty on paste grade PVC used in the manufacture of leather cloth from Rs.15000 to Rs.20000 per tonne as an anti-evasion measure. The excise duty rates on PVC coated textiles are also proposed to be revised upwards. These measures are expected to yield Rs.17.5 crores.

155. At present, various categories of paints and varnishes are liable to excise duty at different rates ranging between 15% and 35%. I propose to rationalise the rates by keeping only two levels of duty at 15% and 30% as against the present five rates. The proposal involves prescribing a uniform excise duty of 15% on insulating varnishes and water based paints and 30% on oil based and plastic based decorative paints. The proposal would yield a revenue of Rs.9 crores.

156. Currently special excise duty at the rate of 1/20th of the basic duty of excise is being levied on indigenously produced goods. However, for the computation of countervailing duty of customs on imported goods, special excise duty is not taken into account. I do not think such a distinction is warranted. I propose to subject the imported goods to countervailing duty on the basis of the excise duty inclusive of special excise duty. This proposal is expected to yield customs revenue of Rs.60 crores.

157. The Baggage Rules relating to free allowance admissible to passengers arriving from foreign countries are being modified. The general free allowance is being increased from the existing level of Rs.1250 to Rs.2000 per passenger. There will be a uniform duty rate of 250% for baggage in excess of this limit as against the existing 175% and 245%. 1 also propose to prescribe a uniform duty rate of 25% on specified articles brought by passengers coming from abroad after a period of stay of more than one year, subject to certain conditions. The revised measures will take effect from the 1st April, 1990.

158. Provision is being made for continuance of auxiliary duty of customs and special excise duty at the existing rates.

159. As the Honourable Members are aware, Inland Air Travel Tax was introduced in the Budget of last year. The tax is leviable at 10% of one component of the total air fare, namely, basic fare. I propose to levy the tax at the existing rate on the full air fare. The estimated revenue gain from the proposal will be Rs.15 crores.

160. As I mentioned in the earlier part of my speech, in recent years our consumption of petroleum products has risen sharply. Honourable Members are also aware that petroleum prices abroad have been hardening. The greater dependence on import has led to a large outflow of foreign exchange and higher overall foreign borrowing. It has now become necessary to review the domestic prices of petroleum products. Keeping in view the interests of the common man, there will be no increase, I repeat, no increase in prices of kerosene and LPG cylinders. There will also be no increase in prices of naphtha for fertilizers and other uses. natural gas, furnace oil for

industry, bitumen for roads and low speed diesel oil for farmers. Among the selected items whose prices are being revised with effect from this midnight are motor spirit, high speed diesel oil and aviation turbine fuel for domestic users. While the price of motor spirit is being raised by Rs.1.25 per litre ex-storage, the price of high speed diesel oil will go up by 54 paise per litre. The price of aviation turbine fuel will increase by Rs.1320.45 per kilolitre. The increase in retail prices will vary from State to State depending on transportation charges and the incidence of local taxes and levies. I propose to mop up a part of the gain accruing to the oil companies as a result of price revision. The import duty on crude oil is being increased from Rs.1060 to Rs.1500 per tonne. This will yield a revenue of Rs.836 crores.

161. The government is compelled to perform this painful duty of increasing the prices of some petroleum products. But these are the hard options forced on us by the grave fiscal situation, rising external debts, and the difficult balance of payments position. We could have postponed these options only at the peril of our economic independence and self-reliance.

162. I have also proposed certain amendments in the Finance Bill seeking to effect changes in the excise and customs tariffs. These amendments are generally enabling provisions and have no revenue significance. Besides, there are proposals for amendment of some of the existing notifications. In order to save the time of the House, I do not propose to recount them.

163. The proposals in regard to changes in die excise duties outlined above are likely to yield additional revenue of Rs.778.63.crores. The concessions and reliefs announced aggregate to Rs.388.44 crores. Out of the net additional shareable revenue from excise duties of Rs.390.19 crores, the centre’s share would be Rs.217.12 crores and the States share is Rs.173.07 crores.

164. My tax effort in respect of customs duties will bring in Rs.979.79 crores. Net of reliefs amounting to Rs.144.76 crores, the additional revenue from customs duties accruing to the Centre will be Rs.835.03 crores. Besides, the changes in the Inland Air Travel Tax would yield Rs.15 crores.

165. Copies of notifications giving effect to the changes in customs and excise duties effective from the 20th March, 1990 will be laid on the Table of the House in due course.

166. I now have something to say on behalf of my Honourable colleague, the Minister of Communications. Postal Service is highly employment intensive and salary and allowances constitute a major part of the operating expenses of the Postal Department. The grant of additional instalments of Dearness Allowance and increases in other operational expenses add significantly to these costs. The postal rates do not meet even the direct cost of most of the services. A revision of tariff for some postal services has, therefore, become unavoidable. However, in the interest of the common

man and cheap and wider dissemination of information, there will be no change in the tariff for ordinary postcards and registered newspapers. The rate of printed postcard, which is used mainly for business purposes, is being raised from 40 paise to 60 paise, of inland letter card from 50 paise, inclusive of the stationery charge, to a consolidated amount of 75 paise, and of envelopes to a uniform rate of Re. one for every 20 grains without any stationery charge. There are also certain other changes which are explained in the memorandum circulated alongwith the Budget documents. The changes would take effect from a date to be notified after the Finance Bill is passed. The revisions proposed are estimated to yield an additional revenue of about Rs.207 crores in a full year and about Rs.172 crores in 1990-91.

167. Honourable Members will recall that the 46th Constitution Amendment Act, 1982 gave enabling powers to the Parliament to levy a tax on consignment of goods where such consignment takes place in the course of inter-state trade or commerce. However, there have been differences of opinion on the modalities of implementation of this law and the matter has been discussed in various meetings of the Chief Ministers. The broad parameters have now been settled and a Committee of Chief Ministers was appointed to work out the guidelines for granting exemptions from this tax, both by the Centre and the States. I propose to consult the Chief Ministers shortly to take a final view in the matter.

168. I had earlier mentioned that the budget deficit at the existing rates of taxes would be Rs.9165 crows. Taking into account the net additional yield from the modifications proposed in direct and indirect taxes and the revised postal tariff, the deficit for the next year is estimated at Rs.7206 crores. Honourable Members will note that this deficit is substantially lower than the deficit of Rs.11750 crores in the revised estimates of 1989-90. In order to give the right signal and contain inflationary pressure, I have also tried to keep next year's deficit even lower than the budget estimate of Rs.7337 crores for the current year.

169. It is my firm determination that the deficit provided for in the budget should not be exceeded. A half-yearly review of the actual developments in the budgetary situation will be made, and the people and the Parliament kept informed about the performance in relation to the deficit.

170. We need to make our fiscal and tax system more stable and predictable. The system of making a large number of changes in the tax rates and tax laws every year, apart from introducing uncertainty, casts a severe burden on the administrative system. It also affects compliance and increases litigation. While some changes in tax rates and laws are inevitable, it is desirable to keep the basic structure stable at least for some time. With this end in view, the Government will present a document on the Long Term Fiscal Policy to Parliament.

171. With this, I have come to the end of my labours. We faced a fiscal situation which constituted a threat to the economic strength and stability of our country. The

choice before us was to let things drift, borrow more and consume more or to take the corrective action now, however difficult. We have made our choice. We have taken some resources from the rich and used them to give some relief to the poor and the common man.. We have begun a process to restrain the budgetary deficit and contain the inflationary pressure. We have tilted the balance of planning and investment towards the rural areas and in favour of employment.

172. As a man of science, wedded to non-doctrinaire socialism, I consider experimentation and its results the touchstone on which can be tested the relevance of all social and economic perceptions and policies.

173. This is the essence of pragmatism and the quintessence of the unending quest of socio-economic experimenters like Gandhiji, Jaya Prakash and Acharya Narendra Dev.

174. Mr. Speaker, with my irrevocable commitment to such a pragmatic approach, I present this Budget to this august House as a short term device to move steadily, and yet resolutely, towards the long term objective of ensuring growth with equity and self-reliance. In this endeavour, I seek the wholehearted support of the people through their chosen democratic instrument - this honourable Parliament.

175. Sir, I commend the Budget to the House.

[19th March, 1990]

Budget 1991-92

Speech of

Shri Manmohan Singh
Minister of Finance

24th July, 1991

PART A

Sir,

I rise to present the budget for 1991-92. As I rise, I am overpowered by a strange feeling of loneliness. I miss a handsome, smiling, face listening intently to the Budget Speech. Shri Rajiv Gandhi is no more. But his dream lives on; his dream of ushering India into the twenty-first century; his dream of a strong, united, technologically sophisticated but humane India. I dedicate this budget to his inspiring memory.

2. The new Government, which assumed office barely a month ago, inherited an economy in deep crisis. The balance of payments situation is precarious. International confidence in our economy was strong until November 1989 when our Party was in office. However, due to the combined impact of political instability witnessed thereafter, the accentuation of fiscal imbalances and the Gulf crisis, there was a great weakening of international confidence. There has been a sharp decline in capital inflows through commercial borrowing and non-resident deposits. As a result, despite large borrowings from the International Monetary Fund in July 1990 and January 1991, there was a sharp reduction in our foreign exchange reserves. We have been at the edge of a precipice since December 1990 and more so since April 1991. The foreign exchange crisis constitutes a serious threat to the sustainability of growth processes and orderly implementation of our development programmes. Due to the combination of unfavourable internal and external factors, the inflationary pressures on the price level have increased very substantially since mid-1990. The people of India have to face double digit inflation which hurts most the poorer sections of our society. In sum, the crisis in the economy is both acute and deep. We have not experienced anything similar in the history of independent India.

3. The origins of the problem are directly traceable to large and persistent macro-economic imbalances and the low productivity of investment, in particular the poor rates of return on past investments. There has been an unsustainable increase in Government expenditure. Budgetary subsidies, with questionable social

and economic impact, have been allowed to grow to an alarming extent. The tax system still has many loopholes. It lacks transparency so that it is not easy to assess the social and economic impact of various concessions built into its structure. The public sector has not been managed in a manner so as to generate large investible surpluses. The excessive and often indiscriminate protection provided to industry has weakened the incentive to develop a vibrant export sector. It has also accentuated disparities in income and wealth. It has worked to the disadvantage of the rural economy. The increasing difference between the income and expenditure of the Government has led to a widening of the gap between the income and expenditure of the economy as a whole. This is reflected in growing current account deficits in the balance of payments.

4. The crisis of the fiscal system is a cause for serious concern. The fiscal deficit of the Central Government, which measures the difference between revenue receipts and total expenditure, is estimated at more than 8 per cent of GDP in 1990-91, as compared with 6 per cent at the beginning of the 1980s and 4 per cent in the mid-1970s. This fiscal deficit had to be met by borrowing. As a result, internal public debt of the Central Government has accumulated to about 55 per cent of Gross Domestic Product (GDP). The burden of servicing this debt has now become onerous. Interest payments alone are about 4 per cent of GDP and constitute almost 20 per cent of the total expenditure of the Central Government. Without decisive action now, the situation will move beyond the possibility of corrective action.

5. The balance of payments situation is most difficult. The current account deficit, which was about 2 per cent of GDP for several years, is estimated to be more than 2.5 per cent of GDP in 1990-91. These persistent deficits, which were inevitably financed by borrowings from abroad, have led to a continuous increase in external debt which, including non-resident Indian (NRI) deposits, is estimated at 23 per cent of GDP at the end of 1990-91. Consequently, the debt service burden is estimated at about 21 per cent of current account receipts in 1990-91. These strains were stretched to a breaking point on account of the Gulf crisis last year. The balance of payments has lurched from one liquidity crisis to another since December 1990. The current level of foreign exchange reserves, in the range of Rs.2500 crores, would suffice to finance imports for a mere fortnight.

6. The price situation, which is of immediate concern to the vast mass of our people, poses a serious problem as inflation has reached a double digit level. During the fiscal year ending 31st March 1991 the wholesale price index registered an increase of 12.1 per cent, while the consumer price index registered an increase of 13.6 per cent. The major worrisome feature of the inflation in 1990-91 was that it was concentrated in essential commodities. The prices of these commodities rose inspite of the three good monsoons in a row and hence the three successive bumper harvests. Inflation hurts everybody, more so the poorer segments of our population whose incomes are not indexed.

7. There is no time to lose. Neither the Government nor the economy can live beyond its means year after year. The room for maneuver, to live on borrowed money or time, does not exist any more. Any further postponement of macro-economic adjustment, long overdue, would mean that the balance of payments situation, now exceedingly difficult, would become unmanageable and inflation,

already high, would exceed limits of tolerance. For improving the management of the economy, the starting point, and indeed the centre-piece of our strategy, should be a credible fiscal adjustment and macro-economic stabilisation during the current financial year, to be followed by continued fiscal consolidation thereafter. This process would, inevitably, need at least three years, if not longer, to complete. But there can be no adjustment without pain. The people must be prepared to make necessary sacrifices to preserve our economic independence and restore the health of our economy.

8. In the macro-management of the economy, over the medium-term, it should be our objective to progressively reduce the fiscal deficit of the Central Government, to move towards a significant reduction of the revenue deficit, and to reduce the current account deficit in the balance of payments. It is only such prudent management that would enable us to curb the exponential growth in internal and external debt and limit the burden on debt servicing, for the Government and the country, to manageable levels. Indeed, we must make a conscious effort to reduce the internal debt of the Government and the external debt of the nation, so that we rely more and more on our own resources to finance the process of development. During the period of transition, it shall be our endeavour to minimise the burden of adjustment on the poor. We are committed to adjustment with a human face. It will also be our endeavour that the adjustment process does not adversely affect the underlying growth impulses in our economy. We do not have time to postpone adjustment and stabilisation. We must act fast and act boldly. If we do not introduce the needed correctives, the existing situation can only retard growth, induce recession and fuel inflation, which would hurt the economy further and impose a far greater burden on the poor.

9. Macro-economic stabilisation and fiscal adjustment alone cannot suffice. They must be supported by essential reforms in economic policy and economic management, as an integral part of the adjustment process, reforms which would help to eliminate waste and inefficiency and impart a new element of dynamism to growth processes in our economy. The thrust of the reform process would be to increase the efficiency and international competitiveness of industrial production, to utilise for this purpose foreign investment and foreign technology to a much greater degree than we have done in the past, to increase the productivity of investment, to ensure that India's financial sector is rapidly modernised, and to improve the performance of the public sector, so that the key sectors of our economy are enabled to attain an adequate technological and competitive edge in a fast changing global economy. I am confident that, after a successful implementation of stabilisation measures and the essential structural and policy reforms, our economy would return to a path of a high sustained growth with reasonable price stability and greater social equity.

10. Thanks to the efforts of Pandit Jawaharlal Nehru, Indira Gandhi and Rajiv Gandhi, we have developed a well diversified industrial structure. This constitutes a great asset as we begin to implement various structural reforms. However, barriers to entry and limits on growth in the size of firms, have often led to a proliferation of licensing and an increase in the degree of monopoly. This has put shackles on segments of Indian industry and made them serve the interests of producers but not pay adequate attention to the interests of consumers. There has been inadequate emphasis on reduction of costs, upgradation of technology and improvement of

quality standards. It is essential to increase the degree of competition between firms in the domestic market so that there are adequate incentives for raising productivity, improving efficiency and reducing costs. In the pursuit of this objective, we have announced important changes in industrial policy which will bring about a significant measure of deregulation in the domestic sector, consistent with our social objectives and the binding constraints on the balance of payments.

11. The policies for industrial development are intimately related to policies for trade. There can be no doubt that protection was essential in the initial phase of our industrial development, so that we could go through the learning period without disruption. The past four decades have witnessed import substitution which has not always been efficient and has some times been indiscriminate. The time has come to expose Indian industry to competition from abroad in a phased manner. As a first step in this direction, the Government has introduced changes in import-export policy, aimed at a reduction of import licensing, vigorous export promotion and optimal import compression. The exchange rate adjustments on 1st and 3rd July 1991 and the enlargement and liberalisation of the replenishment licence system constitute the two major initial steps in the direction of trade policy reform. They represent the beginning of a transition from a regime of quantitative restrictions to a price based mechanism.

12. After four decades of planning for industrialisation, we have now reached a stage of development where we should welcome, rather than fear, foreign investment. Our entrepreneurs are second to none. Our industry has come of age. Direct foreign investment would provide access to capital, technology and markets. It would expose our industrial sector to competition from abroad in a phased manner. Cost, efficiency, and quality would begin to receive the attention they deserve. We have, therefore, decided to liberalise the policy regime for direct foreign investment in the following manner. First, direct foreign investment in specified high priority industries, with a raised limit for foreign equity at 51 per cent, would be given prompt approval, if equity inflows are sufficient to finance the import of capital goods at the stage of investment and if dividends are balanced by export earnings over a period of time. Second, foreign equity upto 51 per cent would be allowed for trading companies primarily engaged in export activities. Third, a special board would be constituted to negotiate with a number of large international firms and approve direct foreign investment in selected areas; this would be a special regime to attract substantial investment that would provide access to high technology and to world markets.

13. For the founding fathers of our Republic, a public sector that would be vibrant, modern, competitive and capable of generating large surpluses was a vital element in the strategy of development. The public sector has made an important contribution to the diversification of our industrial economy. But there have been a number of shortcomings. In particular, the public sector has not been able to generate internal surpluses on a large enough scale. At this critical juncture, it has therefore become necessary to take effective measures so as to make the public sector an engine of growth rather than an absorber of national savings without adequate return. This has been widely accepted, but thought and action in this regard are still far apart. To bridge this gap, the portfolio of public sector investments would be reviewed so as to concentrate the future operations of the public sector in areas that are strategic for the nation, require high technology for the economy,

and are essential for the infrastructure. In order to raise resources, encourage wider public participation and promote greater accountability, upto 20 per cent of government equity in selected public sector undertakings would be offered to mutual funds and investment institutions in the public sector, as also to workers in these firms. Public enterprises which are chronically sick and which cannot be turned around, will be referred to the Board for Industrial and Financial Reconstruction (BIFR), or to a similar high-powered body to be set up, for the formulation of revival or rehabilitation schemes; a social security mechanism will be created to fully protect the interests of the workers likely to be affected by the rehabilitation packages of the BIFR. Autonomy in management, and corresponding accountability, would be provided through a system of memorandums of understanding between the Government and public sector enterprises.

14. Our banking system and financial institutions are at the very core of the financial infrastructure in the economy. The widening and deepening of our financial system have helped the spread of institutional finance over a vast area and have contributed significantly to the augmentation of our savings rate, particularly financial savings. This has been a most commendable achievement, but our financial system has developed certain rigidities and some weaknesses which we must address now . The objective of reform in the financial sector would be to preserve its basic role as an essential adjunct to economic growth and competitive efficiency, while improving the health of its institutions. In this task, it is essential to ensure capital adequacy, introduce prudential norms and improve profitability of our commercial banks and financial institutions. There are no magic solutions. These are complex issues which need careful consideration. Therefore, I propose to appoint a high level committee to consider all relevant aspects of structure, organisation, functions and procedures of the financial system. This committee would advise the Government on appropriate measures that would be needed to enhance the viability and health of our financial sector so that it can better serve the needs of the economy without any sacrifice of the canons and principles of a sound financial system.

15. Interest rates are a crucial dimension of the financial sector. In the formative stages of the development of credit markets, administrative intervention in interest rates is both necessary and desirable. At the present stage of our development, however, we can begin to relax the degree of intervention and impart a greater flexibility to the structure of interest rates. The Reserve Bank of India has already taken an important step in this direction, by stipulating a floor rate of interest and providing freedom to commercial banks to charge interest rates above the floor level based on their perceptions of risk. The Government proposes to extend a similar freedom to term-lending financial institutions, where the minimum interest rate would be 15 per cent, and these institutions would be free to charge an interest rate in accordance with their perception of the creditworthiness of borrowers. With the exception of tax free bonds for the public sector, it is also proposed to remove all restrictions on interest rates for debentures, both convertible and non-convertible, floated in the capital market. The interest rate on such debt instruments will hereafter be governed by market forces, and the credit rating of such debt instruments will become an integral part of the capital market process. In consultation with the Reserve Bank of India, the Government would continue to watch the structure of interest rates. Recently, interest rates payable on bank deposits have been increased. I now propose to do a similar thing with regard to

interest rates payable under the small savings schemes. Our ultimate objective is to achieve a significant reduction both in the nominal and the real interest rates. This would be possible if the rate of inflation is reduced significantly over the next three years.

16. While presenting the budget for 1987-88, our former Prime Minister the late Shri Rajiv Gandhi had assured this House that for a healthy growth of capital markets, for protecting the rights of investors and for preventing trading malpractices the Government would set up a separate Board for the regulation and orderly functioning of the Stock Exchanges and the securities industry. Although the Board was set up, legislation to give the Board adequate powers was unfortunately not enacted. This shall now be done forthwith and full statutory powers will be given to the Securities and Exchange Board of India for administering the relevant provisions of the Securities Contracts (Regulation) Act and the Companies Act. Transferring these powers from the Controller of Capital Issues and the Government to an independent body would enable it to effectively regulate, promote and monitor the working of the Stock Exchanges in the country. A comprehensive package of reforms relating to trading on the Stock Exchanges, including a system of national clearing and settlement and setting up of a central depository, is also under active consideration.

17. In regard to Mutual Funds, some progress towards evolving a competitive structure has been made in the last few years with encouraging results. For many investors, mutual funds are a more suitable investment vehicle than direct ownership of shares. The Government is already giving tax incentives for equity-linked savings schemes offered through mutual funds. The Government has now decided to further promote the development of mutual funds by throwing the field open to the private sector and joint sector mutual funds. In order to safeguard the interests of the investing public, and to encourage a healthy growth of the capital markets, a comprehensive set of guidelines is being evolved for the operation of all mutual funds. Consideration will also be given to enactment of legislation for this purpose.

18. A comprehensive review of policies and procedures bearing on Non-resident Indian investments shall be carried out and further relaxations made in order to remove all procedural difficulties and impediments to the setting up of industrial and other ventures by Non-resident Indians. New sectors shall be made available to NRIs for investment on a non-repatriation basis, including housing, infrastructure and real estate development. For example, at present, NRIs of foreign nationality are required to obtain specific permission under section 31 of the Foreign Exchange Regulation Act (FERA) to acquire residential property. It is now proposed to provide general exemption from this provision to such persons. However, rental income and proceeds from the sale of such housing will be non-repatriable. For facilitating interaction with the Central Government, to serve as a focal point for NRIs, Government proposes to establish a Chief Commissioner for Non-resident Indians. I would urge State Governments, also, to establish an office of a Commissioner for Non-Resident Indians.

19. I believe that the time has come to evolve a more transparent institutional mechanism for fixing tariffs and domestic prices in sectors where there might still be need for protecting Indian industry against foreign competition and for the determination of administered prices, particularly in the area of public utilities. For

this purpose, we propose to restructure the Bureau of Industrial Costs and Prices and to transform it into a Tariff Commission.

20. As we enter the last decade of the twentieth century, India stands at the cross-roads. The decisions we take and do not take, at this juncture, will determine the shape of things to come for quite some time. It should come as no surprise, therefore, that an intense debate rages throughout the country as to the path we should adopt. In a democratic society it could not be otherwise. What can we learn from this debate? The most important thing that comes out clearly is that we cannot realise our goal of establishing a just society, if we abandon the planning process. But India's future development depends crucially on how well the planning process is adapted to the needs of a fast changing situation. I believe that without an intelligent and systematic coordinated resource use in some major sectors of our economy, development will be lopsided. It will violate deeply cherished values of equity and it will keep India well below its social, intellectual and moral potential. But our planning processes must be sensitive to the needs of a dynamic economy. Over centralisation and excessive bureaucratisation of economic processes have proved to be counter productive. We need to expand the scope and the area for the operation of market forces. A reformed price system can be a superior instrument of resource allocation than quantitative controls. But markets can only serve those who are part of the market system. A vast number of people in our country live on the edges of a subsistence economy. We need credible programmes of direct government intervention focussing on the needs of these people. We have the responsibility to provide them with quality social services such as education, health, safe drinking water and roads. In the same way, the development of capital and technology intensive sectors, characterised by long gestation periods, such as transport and communications and energy will need to be planned with much greater care than ever before. The control of land and water degradation, which threatens the livelihood of millions of poor people in this country, will also require effective Government leadership and action.

21. The challenge that we are facing is without precedent. In its initial stages, the Industrial Revolution in the western world concentrated on the creation of wealth, unmindful of the social misery and inequity which characterised this process. The democratisation of the polity came much later. The socialist experiment in charting a new path for accelerated industrial transformation of an underdeveloped economy and polity did achieve considerable success in developing technological and military capabilities, accumulation of capital for rapid industrial growth and human resources development, in countries such as the USSR. But recent developments have shown that this approach too suffered from major weaknesses, particularly in its allocative efficiency, in the management of technical change, control of environmental degradation and in harnessing the vast latent energy and talents of individuals. In India, we launched an experiment under the leadership of Pandit Jawaharlal Nehru, an experiment which sought to unite the strengths and merits of different approaches to accelerated development of our backward economy. We have achieved considerable success in the field of development, modernisation and greater social equity. However, we are yet far from realising our full potential in all these areas. We have to accomplish the unfinished task, while remaining steadfast in our allegiance to the values of a democratic system.

22. At the same time, we must restore to the creation of wealth its proper

place in the development process. For, without it, we cannot remove the stigma of abject poverty, ignorance and disease. But we cannot accept social misery and inequity as unavoidable in the process of creation of wealth. The basic challenge of our times is to ensure that wealth creation is not only tempered by equity and justice but is harnessed to the goal of removal of poverty and development for all.

23. For the creation of wealth, we must encourage accumulation of capital. This will inevitably mean a regime of austerity. We have also to remove the stumbling blocks from the path of those who are creating wealth. At the same time, we have to develop a new attitude towards wealth. In the ultimate analysis, all wealth is a social product. Those who create it and own it, have to hold it as a trust and use it in the interest of the society, and particularly of those who are under-privileged and without means. Years ago, Gandhiji expounded the philosophy of trusteeship. This philosophy should be our guiding star. The austerity that Gandhiji practised and preached is a necessary condition for accelerated economic development in the framework of a democratic polity. The trusteeship that he prescribed for the owners of wealth captured the idea of social responsibility.

24. In highlighting the significance of reform, my purpose is not to give a fillip to mindless and heartless consumerism we have borrowed from the affluent societies of the West. My objection to the consumerist phenomenon is two-fold. First, we cannot afford it. In a society where we lack drinking water, education, health, shelter and other basic necessities, it would be tragic if our productive resources were to be devoted largely to the satisfaction of the needs of a small minority. The country's needs for water, for drinking and for irrigation, rural roads, good urban infrastructure, and massive investments in primary education and basic health services for the poor are so great as to effectively preclude encouragement to consumerist behaviour imitative of advanced industrial societies. Our approach to development has to combine efficiency with austerity. Austerity not in the sense of negation of life or a dry, arid creed that casts a baleful eye on joy and laughter. To my mind, austerity is a way of holding our society together in pursuit of the noble goal of banishing poverty, hunger and disease from this ancient land of ours.

25. Let me now turn to fiscal adjustment during the current financial year. The beginning of any attempt to correct the fiscal imbalance in the economy must be directed at a reduction in expenditure and an increase in income of the Government, so as to reduce the fiscal deficit. In the medium-term, however, our fiscal regime would be sustainable only if revenue receipts not only meet revenue expenditure but also provide a sufficient surplus to finance capital expenditure that does not yield direct economic returns as such, as in defence or in social sectors. Even this would not suffice if investment expenditures in the budget do not earn an adequate return. The elimination of structural imbalances in our fiscal system would require a reduction both in the fiscal deficit and in the revenue deficit as a proportion of GDP. The Union Budget for 1991-92 is an essential first step in this direction.

26. It must be recognised that the necessary reduction in the fiscal deficit, during 1991-92, is a stupendous task. The interim budget presented to Parliament in March 1991 estimated the fiscal deficit at Rs.38475 crores. But this estimate was based on assumptions about certain decisions that have not been implemented. The postponement of the regular budget has made a formidable task even more difficult because almost four months of the financial year have now elapsed without

any effort at fiscal correction. Indeed, past trends in revenue and expenditure suggest that, without any corrective action on our part, the fiscal deficit during 1991-92 could well reach a level of more than Rs.52000 crores. The difference between the two sets of figures provides the real measure of the fiscal correction needed during the current financial year.

27. According to provisional data available, the more narrowly defined budget deficit, as measured by borrowing through short term Treasury bills, for 1990-91 at Rs.11430 crores was significantly higher than the revised estimate of Rs.10722 crores, largely due to a substantial revenue shortfall, particularly in corporation tax revenues. This highlights the handicap with which we begin. Let me now present the scenario for 1991-92.

28. The increasing levels of non-plan expenditure, financed through borrowing, have led to an exponential increase in interest payments by the Government. The revised estimates for interest payments during 1990-91, at Rs.21850 crores, accounted for as much as 38 per cent of the net revenue receipts of the Central Government. Interest payments during 1991-92, estimated at Rs.27450 crores, constitute 42 per cent of the net revenue receipts of the Central Government at existing rates of taxation. If the present trends continue without any correction, then interest payments could well account for more than 50 per cent of the net revenue receipts of the Central Government by 1994-95. These magnitudes and proportions only serve to highlight the gravity of the situation and the acute need for a substantial adjustment in non-plan expenditure over the next three years.

29. The revised estimate for total non-plan expenditure in 1990-91 was Rs.76761 crores. In the normal course, even with the strictest scrutiny but in the absence of specific measures for reducing expenditure, this non-plan expenditure would have increased to a level of Rs.89000 crores in 1991-92. Any attempt at fiscal correction during the current financial year can be meaningful only if non-plan expenditure is reduced by at least 10 per cent from the level it would otherwise reach.

30. The single largest component of non-plan expenditure is interest payments. Even if there is a drastic reduction in Government borrowing during this year, interest payments would still be in the range of Rs.35000 crores in the next financial year. The exponential increase in interest payments can be brought under some measure of control, by 1994-95, only through a strict discipline on government borrowing for a period of three years.

31. The second largest component of non-plan expenditure is the allocation for the defence sector, where the provision in the revised estimates for 1990-91 was Rs.15750 crores. No attempt at containing non-plan expenditure can succeed if defence is to be excluded. At the same time, it is absolutely essential to ensure that a quest for economy in expenditure does not in any way compromise national security. We must, therefore, seek to limit expenditure without diluting the efficiency and effectiveness of our defence services. Keeping in view all these considerations, it has been decided to provide an outlay of Rs.16350 crores for defence in the current year.

32. Honourable Members are aware that export subsidies have been abolished with effect from 3 July 1991. The export sector is being adequately compensated through the adjustments in the exchange rate and the expansion of the Replenishment Licensing System which were implemented at the beginning of July.

Consequently, it is now necessary to provide only Rs.1224 crores for export subsidies in the budget estimates for 1991-92, as compared with the earlier estimated requirement of Rs.4200 crores, yielding a saving of as much as Rs.3000 crores during the remainder of this year.

33. In so far as fertiliser subsidies are concerned, with effect from this evening, low analysis fertilisers such as calcium ammonium nitrate, ammonium chloride, ammonium sulphate and sulphate of potash will be free from price and movement controls. There will be an increase of 40 per cent, on an average, in the price of all other fertilisers. In addition, in respect of single super phosphate, there shall also be a ceiling on the subsidy per tonne payable to producers so as to move towards total deregulation in the next few years; this should act as an incentive for all high cost units to reduce costs and improve efficiency. The necessary notifications in this regard are being issued separately, today, by the Ministry of Agriculture.

34. The economic rationale for an increase in the price of fertilisers is so obvious that it does not need to be stated. Nevertheless, I would like to draw the attention of the House to the fact that there has been no increase in fertiliser prices since July 1981. In these ten years, there has been a continuous increase in the procurement prices of paddy and wheat, as also in the market prices of other crops, received by the agricultural sector. Farmers will be compensated for the proposed increase in the price of fertilisers through suitable increases in procurement prices.

35. We would continue to ensure that 50 per cent of the plan resources are invested in the agricultural and rural sector. The provision for the continuing schemes for assistance to small and marginal farmers for dug wells and shallow tubewells would be doubled. The ceilings on assistance in difficult areas, where the water-table is very low, would be removed. Similarly, the provision for assistance for fresh water and brackish water aqua-culture and for oilseeds and pulses production would be substantially stepped up. New schemes are being drawn up to popularise small tractors and matching implements, drip and sprinkler irrigation in areas where water is scarce, and quality seeds in low yield areas. Another new scheme that would be implemented from this kharif season is for providing assistance to State Governments, cooperative societies, and farmers' groups to provide blanket plant protection cover on payment of a small fee in large identified areas under cotton or pulses. It would also be possible to demonstrate the advantages of integrated pest management in these areas. In order to safeguard any possible loss in production because of increase in fertiliser prices, and any decline in consumption, the credit structure would be strengthened to ensure adequate availability of credit particularly to the small and marginal farmers. Simultaneously, soil testing laboratories and farm advisory services all over the country would be strengthened to ensure efficient use of fertilisers and popularise the use of bio-fertilisers. We would also identify a few irrigation projects that can be completed in this very year and ensure that these are provided the necessary funds. The other new initiatives, also, would not be starved of funds. As far as possible our emphasis will be on provision of quality services to our farmers and not on hand outs and subsidies.

36. The sugar subsidy which is costing the exchequer about Rs.350 crores per annum is indeed an aberration, which crept into the system from January 1990, when the increase in the levy price paid to producers was not matched by a simultaneous increase in the issue price for consumers in the public distribution system. Small quantities of sugar are made available, mostly in metropolitan and

urban areas, under the public distribution system at Rs.5.25 per kg. whereas the price that most people pay in the market is around Rs.10 per kg. Government has decided that this subsidy should be abolished forthwith. Consequently, the issue price of sugar under the public distribution system will be increased by 85 paise per kg. to Rs.6.10 per kg. with effect from this evening. At the same time, the public distribution system is being strengthened to serve more effectively the weaker sections of our population, particularly the rural poor, having special regard to their basic needs for foodgrains such as rice and wheat. The provision for food subsidies in the current year is being stepped up to Rs.2600 crores, as compared with only Rs.1800 crores provided in the interim budget and Rs.2450 crores provided in the revised estimates for 1990-91.

37. As a result of the exchange rate adjustments, at the beginning of July 1991, there would be an increase in the rupee value of the import bill for crude oil and petroleum products. It is, therefore, necessary to raise the prices of petroleum products for domestic consumers. This would also help to restrain the growth in consumption of petroleum products. The price of motor spirit, domestic LPG and aviation turbine fuel for domestic use would be raised by 20 per cent. The prices of other petroleum products, excluding diesel and kerosene for non-industrial use,would be raised by 10 per cent. The price of kerosene, for non-industrial use, would be reduced by 10 per cent which means a 50 per cent roll-back in relation to the increase in the price that came into effect on 15 October 1990. Even in a most difficult financial situation, this is being done to protect the poor for whom kerosene is an essential source of light and fuel. While there will be no increase in the price of diesel, I would endeavour to protect the interests of the farmers who use diesel. For this purpose, I shall hold discussions with State Governments. The proposed increases in the prices of petroleum products will come into effect from this evening, and the necessary notification in this regard is being separately issued by the Ministry of Petroleum and Natural Gas.

38. For non-plan expenditure, excluding interest payments, defence, and major subsidies, the total provision in the budget estimates for 1991-92 is Rs. 28,073 crores, reflecting a reduction of Rs. 1538 crores compared with the provision in the revised estimates for 1990-91. If we take into account the fact that no separate provision has been made for the payment of additional installments of dearness allowance by Ministries and Departments in the current year, the total reduction in such other non-plan expenditure will exceed Rs. 2000 crores. In recent years, it has been the usual practice to issue instructions to Ministries that such additional requirements should be accommodated within the approved budget estimates. This has invariably resulted in some programmes on the plan side being deprived of adequate resources. It is my intention to effect maximum possible economies in the non-plan administrative expenditure. Therefore, all Ministries have been requested to prioritise their activities so that those which figure at the bottom of the list can be abridged, while those which have outlived their utility can be abandoned altogether. This exercise has already been initiated by all Ministries and is expected to be completed by the end of August 1991. With this approach, the proposed reduction in other non-plan expenditure, which I am promising to the House, would be brought about in a more meaningful manner without leading to a reduction in the provision for plan programmes.

39. There is one large component of non-plan expenditure that is a burden on

the exchequer. I refer to the Government's obligation under the Rural Debt Relief Scheme. Unfortunately, there was a gross under-estimation of the total fiscal liability under this scheme which was introduced last year. In addition to the sum of Rs. 1500 crores provided in the revised estimates for last year, we have to provide Rs. 1500 crores in the current year. But this is not all. We may need a similar provision in the next year.

40. As a result of the major adjustments in the sphere of expenditure, which I have outlined in my speech, the budget estimate for total non-plan expenditure in 1991-92 stands at Rs. 79,697 crores. It is simply not possible to reduce interest payments in the short term. The provision for non-plan expenditure, excluding interest payments, in the current year represents a reduction of 4.9 per cent compared with the provisions in the revised estimates for 1990-91, and a reduction of almost 15 per cent in relation to what we would have had to provide this year, but for the specific correctives that are being introduced. We have, thus, more than fulfilled our commitment to reduce non-plan expenditure by 10 per cent, which was stated in our Party's election manifesto.

41. The election manifesto of the Congress Party identifies areas for special emphasis in our strategy of development. These include a substantial augmentation of employment programmes, the construction of dwelling units for the weaker sections of our society, an expansion of the programme for irrigation wells and so on. This would need a change in, and some reorientation of, plan priorities, with a shift towards investment in rural areas and expenditure on programmes designed for the benefit of the poor. Our strategy would, of course, be reflected in the Eighth Five Year Plan, which would now commence on 1 April 1992. It shall be our endeavour to finalise the Eighth Plan document by the end of this calendar year, so that the annual plans for 1992-93, as well as the budgets of the Centre and the States for that year, reflect the changed priorities.

42. As the Vote on Account had earlier been taken only to cover the expenditure in the first four months, this budget has had to be presented before the end of July, 1991. We have, thus, not had the time to re-orient the Annual Plan for 1991-92 to reflect fully our various concerns. Moreover, this year's annual plan has had to be situated in the context of the massive fiscal correction that we have to put through. In fact, it was first felt that it would be necessary to effect a substantial reduction in budget support for the Central Plan and Central Plan assistance for the States. I am, however, happy to inform the House that with the substantial cuts proposed in non-plan expenditure, it is now possible to protect the flow of Central Plan assistance to States and Union Territories at the level of Rs. 14710 crores, as reflected in the interim budget for 1991-92. The Central plan outlay would, however, show a modest increase at Rs. 42969 crores with a budget support of Rs. 19015 crores.

43. I am aware that in basic infrastructure areas such as power, coal, communications and petroleum, we will have to set our sights much higher. In the present situation, characterised by an acute shortage of foreign exchange, it is, in particular, imperative to augment substantially the domestic production of coal, crude oil, natural gas and electrical energy. Efforts will also have to be made on a crash basis for promoting utmost economy in use of energy through more efficient technologies in industry, agriculture, transport and domestic sectors. The

transmission and distribution line losses would also have to be brought down drastically from the present high level of 22 per cent. We shall address ourselves to all these tasks once we are through with taking stock of the situation. It is my earnest hope that, by then, thanks to the fiscal corrections now being put through, the resources position would improve, giving us the necessary flexibility. For the present, it has been my endeavour to maintain essential investment through appropriate support for the Central Plan despite binding constraints on the exchequer.

44. In preparing this budget, I have sought to ensure that the burden of fiscal adjustment does not fall on State Governments. It is my belief that the Central Government must set an example by introducing fiscal correctives, and it is my hope that the State Governments would move in this direction as soon as possible. In particular, I would urge them to ensure prompt payment of dues owed by the State Electricity Boards to the National Thermal Power Corporation, Coal India and the Indian Railways. We cannot allow State level enterprises to become an instrument of unplanned and unauthorised transfer of resources from the Centre to the States. That is neither fair nor equitable. This practice must, therefore, stop forthwith. Simultaneously, State Governments must take effective steps to improve their fiscal performance and streamline the working of their public enterprises. They should not expect me to reward fiscal laxity by permitting them to have recourse to unauthorised overdrafts from the Reserve Bank of India. I want them to be an active partner in the accomplishment of the difficult task of restoring the fiscal health of the country.

45. The process of macro-economic adjustment, which is being initiated with this budget, would take at least three years to complete. This adjustment must have a human face. Therefore, during the period of transition, we shall do everything that is possible to minimise the burden of adjustment on the poor. To some extent, the poor would be protected as the rate of inflation comes down. We shall make determined efforts to control inflation and the price rise. The fiscal strategy of this budget will make a major contribution in this regard. In addition, it will be our endeavour to provide protection to the poor in the form of enhanced outlays in the social sectors. Employment creation and poverty eradication in rural India will continue to receive the highest priority. At the same time, Government is committed to the uplift of the weakest and the most vulnerable sections of our society.

46. The plan outlay for the Ministry of Rural Development is being stepped up from Rs.3115 crores last year to Rs. 3508 crores this year. Within this, the outlay for employment programmes alone is Rs.2100 crores. The various employment oriented programmes should make it possible to provide nearly 900 million man-days of employment. If, this year, we are not aiming at the target of 1000 million man-days mentioned in our manifesto it is because the season when there is maximum need for such employment is already over. The Eighth Plan now under formulation will spell out a comprehensive strategy and programmes to achieve the long term employment objectives, and targets such as those relating to the construction of irrigation wells, urban night shelters and Sulabh Shauchalayas, dwelling units for poor backward classes, scheduled castes and scheduled tribes in the villages, mentioned in our Party's election manifesto.

47. The provision for the rural water supply scheme is being stepped up to Rs.758 crores, so as to make it possible to set aside Rs. 250 crores for ensuring

complete coverage of 'no-source problem villages' by the end of 1992-93. The earlier expectation was that these villages would be covered only by the end of the Eighth Plan period. The late Shri Rajiv Gandhi had attached great priority to this programme and had set up a Technology Mission for this purpose. The programme, which is now being named after Shri Rajiv Gandhi, will be accelerated. We will ensure that resource constraints do not stand in the way of achieving the target.

48. It is a matter of deep concern that we have still not been able to put an end to the dehumanising practice of manual removal of night-soil. The allocation for this programme has in the past been less than adequate. It has now been decided not only to accelerate the programme for the conversion of dry-latrines but also to step up the allocation for the rehabilitation and retraining of scavengers. Towards this end, the allocation for the programme has been increased by Rs. 25 crores and more funds, to the extent necessary, would be provided during the course of the year. Inclusive of the increased provision for this programme, the total outlay for the programmes of the Ministry of Welfare, which is concerned with the welfare of scheduled castes, scheduled tribes and other weaker sections of our society, is being stepped up from Rs. 364 crores in 1990-91 to Rs. 479 crores in 1991-92. The outlay for the Department of Women and Child Development, dealing with perhaps the two most disadvantaged segments of our population among the poor, is being enhanced from Rs. 330 crores last year to Rs. 400 crores this year. For Health and Family Welfare, I am providing a plan outlay of Rs. 1051 crores in 1991-92 as compared with Rs. 950 crores in 1990-91.

49. The allocation of resources for investment in social sectors is of utmost importance for the development of human resources. In this context, there is no need for me to emphasise the importance of education, in particular, elementary education. Our efforts to restructure and revitalise the economy can succeed only if we invest in our people. Particular attention has to be paid to the provision of quality education to children belonging to the scheduled castes, the scheduled tribes and other economically and socially backward classes. Children who belong to the category of first generation learners need special care and attention. If the equality of opportunity is to acquire its true significance, quality education must not remain the exclusive privilege of the children of the rich. The Government is committed to ensure that, whatever be our constraints, the programmes of education will not be allowed to suffer for want of financial support. Every effort will be made to ensure that the constitutional directive of providing free and compulsory education upto the age of 14 years becomes a reality before we enter the twenty first century. In the sphere of higher education and technical education, more resources are needed for modernisation and diversification, but, at the same time, an effort must be made to secure optimum results from the existing investments in these institutions. The requirements of education are vast and we shall have to seek innovative ways of finding resources. Budget support provided by the Central Government and the State Governments are an important source, but cannot continue to remain the only source. I am raising the allocation for education from Rs.865 crores in 1990-91 to Rs.977 crores in 1991-92. This allocation is not commensurate with my deep commitment to education and the priority that is attached by the Government to the education sector. I would have liked to do more but we must learn to live with the constraints on the exchequer.

50. We have the third largest number of scientists and technologists in the world. Yet, technology development in our country has not been commensurate either with this number or the investments that we have been making in the science and technology sectors in our successive Five Year Plans. This gap would have to be bridged through a suitable reorientation of the Science and Technology Policy and the way paved for relating science and technology more intimately to the requirements of our development, as well as for better upgradation, absorption, adaptation and assimilation of new technologies. This task has become imperative as we prepare ourselves to be an internationally competitive economy.

51. Government has also decided on five new initiatives. The first of these is the establishment of a Corporation for the welfare of the backward classes, a task that the Congress manifesto has included for completion within the first 100 days. The details of the structure and duties of this Corporation are being finalised by the Ministry of Welfare and will be announced before the end of this session.

52. Government will establish a National Renewal Fund, with a substantial corpus. The main objective of this fund will be to ensure that the cost of technical change and modernisation of the productive apparatus does not devolve on the workers. This fund will provide a social safety net which will protect the workers from the adverse consequences of the technological transformation. I visualise that this fund will grow in size and State governments will also contribute to its corpus in due course. The fund will not merely provide ameliorative measures for the workers affected in the course of technical change but, more importantly, provide retraining to them, so that they are in a position to remain active productive partners in the process of modernisation.

53. The third programme relates to the care of children of families affected by communal riots. These riots are a blot on the fair name of our Republic. Our Government is deeply committed to the protection and advancement of all religious and cultural minorities. Effective steps will be taken to prevent recurrence of communal violence. At present there are arrangements to provide compensation of varying amounts to the riot affected families. But experience shows that such compensation does not always protect the interests of children of the riot affected families. These children then grow up into disgruntled and disorganised adulthood. They become an easy prey to the propaganda of anti-social elements and the obscurantist, fundamentalist forces of reaction. To protect the interests of such children, look after their welfare and in particular their education, the Government proposes to set up a National Foundation for Communal Harmony as an autonomous non- government organisation. The Central Government will make a significant contribution to this Foundation in 1991-92. I invite State Governments as well as industry and trade to make liberal contributions for this noble cause.

54. The fourth programme is to promote national integration through a scheme for enabling the youth of each part of the country to go in large numbers and work for short periods in other parts of the country, giving them an opportunity to mingle with people of different regions and languages. A similar step in this direction has already been taken in the Navodaya Vidyalaya Programme. This will now be strengthened and extended on a national basis.

55. The fifth programme relates to promotion of South-South cooperation. We

as a nation are committed to close cooperation and sharing our development experience, knowledge and expertise with non-aligned and other developing countries. There is immense scope for Indian scientists, technicians, engineers, teachers, social workers and farmers to contribute to the development process in the third world. Our experience in various fields can be of great relevance and assistance to many developing countries particularly in Asia and Africa. It is our hope to arrange for participation of at least 500 volunteers in different nation building tasks, in selected developing countries, in the coming year. The details of the programmes will be worked out and announced before the end of the session.

56. The House will also be pleased to learn that in acceptance of a recommendation of the South Commission presided over by Dr. Julius K. Nyerere, the former President of Tanzania, we propose to set up a National Committee under the chairmanship of the Prime Minister for mobilising public opinion in support of South-South cooperation and for advising our Government for devising concrete action programmes in this regard. This committee will consist of representatives of Government, trade and industry, trade unions and members of learned professions.

57. The Rajiv Gandhi Foundation has been established to perpetuate the memory of the great leader and to promote the ideals and objectives for which he lived and laid down his life. This Foundation, among other things, will lay particular emphasis on research and action programmes relating to the application of science and technology for development, propagation of literacy, the protection of the environment, the promotion of communal harmony and national integration, the uplift of the under-privileged, women and handicapped persons, administrative reforms and India's role in the global economy. As a homage to the late Shri Rajiv Gandhi and in support of the laudable objectives of the Foundation, Government has decided to contribute Rs.100 crores to the Foundation at the rate of Rs.20 crores per annum for a period of five years beginning from the current year.

58. Pending determination of the exact amounts that will be necessary for each of these new initiatives, a lump sum provision of Rs.250 crores has been included in the plan outlay of the Ministry of Finance.

59. The budget provision for total expenditure in 1991-92 is Rs.113422 crores, of which Rs.79697 crores is non-plan expenditure and Rs.33725 crores is plan expenditure.

60. In the sphere of revenue receipts, at the existing rates of taxation, gross tax revenues are estimated at Rs.66218 crores during the current financial year, compared to Rs.58916 crores in the revised estimates of last year. The payment to States of their share of taxes is placed at Rs.15643 crores in 1991-92 as against Rs.14535 crores in the revised estimates for 1990-91. Thus, the net revenue receipts of the Centre, including non-tax revenue, are estimated to increase from Rs.57381 crores in 1990-91 to Rs.65524 crores in 1991-92.

61. In the sphere of capital receipts, market borrowings are placed at Rs.7500 crores this year, which is lower than Rs.8000 crores last year; this is part of a conscious effort to reduce the borrowing of the Central Government which would, in keeping with the past trends, have gone up by about 10 per cent. The net collections on account of small savings are estimated at Rs.8000 crores, which are at the same level as the revised estimates for last year. In addition, the Government

has decided to disinvest upto 20 per cent of its equity in selected public sector undertakings in favour of mutual funds and investment institutions in the public sector, which is expected to yield Rs.2500 crores to the exchequer during the current financial year. This disinvestment would broad-base the equity, improve the management and enhance the availability of resources in these enterprises.

62. The net receipts on account of external assistance, excluding grants, are placed at Rs.3510 crores compared to Rs.3984 crores in the revised estimates of 1990-91. While the increase in the loan repayment and interest payment liabilities, as a consequence of the recent exchange rate adjustments, is fully reflected in the budget estimates, the likely increase in the rupee value of external assistance following the exchange rate adjustments is still under assessment. To the extent that these receipts increase, there will also be a corresponding increase in expenditure when the assistance is passed on to the concerned projects or schemes for which such assistance is received. These changes, which will thus be budget deficit neutral, will be incorporated at the stage of revised estimates.

63. Taking into account other changes in receipts and expenditure, total receipts at the existing rates of taxation are estimated at Rs.103698 crores, while total expenditure is estimated at Rs.113422 crores. Therefore, without additional resource mobilisation, the budget deficit is estimated at Rs.9724 crores, the revenue deficit at Rs.15859 crores, and the fiscal deficit at Rs.39732 crores.

PART B

64. Honourable Members would have observed that expenditure adjustment constitutes the core of the proposed fiscal correction during the current financial year. But the process of fiscal adjustment cannot be complete without revenue measures to increase the income of the Government. I now seek the indulgence of the House to present the reliefs, the incentives and the levies in the sphere of direct taxes.

65. The revenue from direct taxes, both as a proportion of GDP and as a percentage of total tax revenues, has registered a steady decline over time. This trend has to be reversed, so as to restore equity in, and balance to our fiscal system. Resources for development must be raised from those who have the capacity to pay. For this purpose, we must place greater emphasis on direct taxes. This calls for increased rates wherever necessary and a better tax compliance. At the same time, rationalisation of the system, which reduces the maximum marginal rate of tax, simplifies the procedures, reduces the plethora of concessions, and brings the average rates of income tax at various levels of income to more appropriate levels, is necessary. The time available before presenting the budget was simply not enough to formulate basic structural changes. Yet, I have made a conscious effort to move one step forward in this direction.

66. Nobody can deny the existence of large scale tax evasion, both in terms of income and in terms of wealth. Unless I find substantial improvement in tax compliance in the next few months, Government will have no choice but to take strong measures to make the tax evader pay a sufficiently high price for such delinquency. Before coming down heavily on tax evaders, I would like to give them

a last opportunity to come clean. The black money so mobilised will be utilised for the achievement of social objectives such as slum clearance and low cost housing for the rural poor.

67. I propose to institute a scheme, under which any person would be allowed to make a deposit with the National Housing Bank on or before close of business on 30th November, 1991. Thereupon, forty per cent of such deposit would be deducted and set apart as a special levy, which would form the corpus of a fund in the National Housing Bank. This fund will be utilised for financing slum clearance and low cost housing for the poor, in accordance with guidelines and priorities laid down by the Government. The depositor would be allowed to draw the balance amount in one or more installments through account payee cheques for any stated purpose of his choice. There will be no lock-in period for this deposit. Persons making such deposits will not be required to disclose the source of funds from which the deposits are made. In other words, the monies deposited would be provided complete immunity from enquiry and investigation. The provisions of Direct Tax Laws would, however, apply to the net deposits after deduction of the special levy, from the date of the deposit. The levy itself would not be an allowable deduction in the computation of income of the person concerned. Necessary legislation in this regard will be introduced shortly, in this session of Parliament. The details of the scheme and its date of commencement will also be announced soon.

68. The Income-tax Act contains a provision under which tax payers can avail of the facility of waiver of penalty and interest on the amount disclosed once in a life-time. To those who have already availed of this facility, I propose to give just one more opportunity to disclose their unaccounted incomes. The Finance Bill contains a proposal for making suitable amendments to section 273A of the Income-tax Act for this purpose.

69. The Settlement Commission was set up to provide an opportunity to assessees to declare their undisclosed income and wealth. Under the existing procedures, the Commissioner of Income Tax can, on certain grounds, object to admission of an application by the Settlement Commission. This results in unnecessary delay. This provision is, therefore, being deleted. The Settlement Commission will, however, continue to call for and take into account the Commissioner's report, provided it is furnished within a period of six months.

70. Our election manifesto has promised that we will promote reinvestment of profits, by suitable tax exemptions, in areas where there is crying need for massive investment such as low and middle income group housing, highways, roads and bridges, non-conventional energy, school buildings and supply of drinking water. I, therefore, propose to make a provision in the Income-tax Act to provide deduction, in computing taxable profits of a taxpayer carrying on a business or profession, of the entire amount paid for financing projects or schemes promoting social and economic welfare. To ensure optimum use of scarce resources, I propose to set up a National Committee of eminent persons to identify areas requiring support and for recommending specific projects and schemes. A similar deduction will be allowed also in the case of taxpayers not carrying on any business or profession.

71. As a token of my commitment to education and research and in recognition of the significant role they have to play in our development process, I propose to

extend certain tax concessions that will help in the funding of social science research and provide some incentive to authors and publishers.

72. At present, only taxpayers carrying on a business or profession get deduction for sums paid to any approved university, college or other institutions for research in social sciences related to the class of business carried on by them. I consider that there is a case for providing more tax incentives for social science research. I, therefore, propose to allow the same100 per cent deduction in respect of sums paid for research in these areas whether related to business or not. I also propose to allow this deduction to taxpayers not carrying on any business or profession.

73. The role of books, particularly in the context of our National Literacy Mission as well as the National Education Policy cannot be overemphasized. To encourage publication of better and less expensive books and to give a fillip to the publishing industry, I propose to revive, with effect from the current accounting period, the deduction of twenty per cent of profits from publication of books for a period of 5 years. To encourage the publication of quality text books in various Indian languages I also propose to revive the 25 per cent deduction from professional income of authors of text books in Indian languages. This will also be available for a period of five years, beginning with the current income-earning period.

74. Offshore country funds are emerging as important channels for attracting foreign institutional investment particularly from non resident Indians. India made a beginning in this direction in 1989. Of late, however, there are signs of diminishing interest of foreign institutional investors in off-shore India country funds. The comparative national tax structure is one of the key factors affecting the direction of international financial flow. I, therefore, propose to substantially reduce the rate of tax on dividend income received by the off-shore funds from the units of UTI or other mutual funds and on long-term capital gains from such units. On dividend income the proposed rate of tax will be 10 percent as against the existing rate of 25 percent. On long-term capital gains, I propose to have the same rate of 10 percent as against the effective rate of about 45 percent at present.

75. In the light of our deep emotional involvement with the struggle of the Black majority in South Africa and as a further affirmation of our commitment to South-South cooperation, I propose that donations to the AFRICA FUND be entitled to 100 per cent deduction under section 80G of the Income-tax Act.

76. The Government is committed to the welfare of our unfortunate handicapped citizens. In an effort to mitigate in some small measure their hardship, I propose to increase the deduction available under Section 80 U of the Income-tax Act in respect of totally blind or physically handicapped persons, from fifteen thousand rupees to twenty thousand rupees. The benefit of this tax concession is also proposed to be extended to partially blind persons.

77. Promotion of housing activity ranks high in Government's socioeconomic priorities. Towards this objective, I propose to extend the benefit of tax rebate under section 88 of the Income-tax Act also to contractual schemes floated by public housing corporations like HUDCO and State Housing Boards along the lines of the Home Loan Account Scheme of the National Housing Bank. Further, the tax rebate under section 88 will also be available in relation to installment/repayment

of loans towards cost of land and also in cases where the house was purchased or constructed before 1st April, 1987.

78. Our software industry has made considerable progress in recent years. However, there is still a vast unexploited potential for growth. It is time we make all-out efforts to capture the overseas software market. With this objective, I propose to extend the tax concession under section 80HHC of the Income-tax Act to export of software. With this concession, the exports of this industry should register rapid growth.

79. I also propose to extend the concession under section 80HHC to the export of processed minerals.

80. I consider that scientific, technical and professional skills, knowledge and experience possessed by our professionals in various fields like architecture, accounting etc. have an increasing capacity to earn foreign exchange for the country. Many of them carry on their professions as individuals or partnership firms. To enable them to benefit from the tax concession available under section 80-O, I propose to extend, to the non-corporate assessees, the concession presently available only to the corporate sector.

81. In order to encourage development of tourist infrastructure in regions where such facilities are almost non-existent today, I propose to exempt from Expenditure Tax for a period of ten years expenditure incurred in new approved hotels set up in hilly and other remote areas. I also propose to allow to such hotels a deduction of 50 per cent from their profits instead of the normal 30 per cent under section 80-I, subject to certain conditions.

82. As a token of my appreciation of the role of a healthy capital market in the development of our economy, I propose to raise the basic deduction of Rs 10,000 now available under section 48 of the Income-tax Act in respect of long-term capital gains to Rs 15,000.

83. As indicated earlier, I wish to take some positive steps to reverse the trend of decline in the proportion of direct tax revenues to total revenues. I therefore propose to raise additional resources this year through a greater reliance on direct taxes. I now turn to my proposals for ensuring better tax compliance and moblising revenues through the imposition of additional taxes.

84. To enable the Government to identify income earners, most of whom would not otherwise declare their income or would not declare their full income, I propose to extend the scheme of tax deduction at source to cover new areas of payments in the nature of commissions, interest paid by banks on time deposits and withdrawals from the National Savings Scheme. To minimise the inconvenience for small depositors, tax will be deducted at source only in respect of payments in excess of Rs.2500 per year. Those receiving payments in excess of the limit but not having taxable income will have the facility of collecting payment with no tax deduction by filing a declaration in the prescribed manner.

85. The present provision for offsetting short-term capital losses against income leads to tax avoidance. I, therefore, propose that any loss on transfer of a capital asset will be set off only against gain from transfer of another capital asset. This is

only logical. It should also stop the practice of buying short-term capital losses being resorted to by some unscrupulous tax payers.

86. Over the years, those with an instinct for gambling have increasingly patronised the races. I propose to withdraw the income-tax exemption of Rs.5000 in respect of earnings from races, including horse races. I am sure that persons who place bets will now also have the added pleasure of sharing their earnings from races with the Government.

87. Professor Kaldor once observed that no civilised society should have a maximum marginal rate of income tax higher than 45 per cent. We are firmly committed to a tax system which is simple, credible, yet progressive, in which people realise that honesty is the best policy. I expect to make a beginning in this direction as soon as we can overcome the present fiscal difficulties. I am confident that this process can be completed before the end of the five year term of our Government. Tax payers can help to accelerate the process of tax reform if all of them resolve to pay their income-tax dues fully and promptly. In the midst of a fiscal crisis however, such a change is not feasible. We must wait for better times. The best I can do under the circumstances, is what I propose to do this year : keep the personal income-tax rate structure including the surcharge unchanged. That I have not added to the burden of the taxpayer is, in itself, a relief.

88. I have received several representations that wealth-tax rates need to be rationalised. I see considerable merit in these representations. However, taking into account the needs of revenue and also for want of time, I propose to make no change in the rates of wealth-tax.

89. For the purposes of levy of wealth-tax, the rules of valuation of assets aim at capturing their market value, or near about, as on the valuation date. I find that a distortion has crept into these rules. When an individual holds any asset in his name its valuation is at the market value. However, if a group of persons holds its assets through an investment company the taxable value of these assets gets reduced considerably because it is based on the book value and not on the market value. I, therefore, propose to remove this anomaly by providing that in valuing unquoted shares of an investment company, the break-up value of the share will be determined after revaluing the assets of the company at their market value.

90. I feel disappointed that the phenomenal growth in the output, value added and profits of the corporate sector, in recent years, has not been appropriately reflected in corporate tax collections. The experience of the preceding financial year, in particular, is a matter of serious concern. I am, therefore, raising the corporate tax rate for widely held companies, from 40 to 45 per cent. A corresponding increase of 5 percentage points from 45 to 50 per cent is being made in the corporate tax rate for closely held companies. I also propose to continue the existing surcharge of 15 per cent.

91. The traditional distinction in corporate tax rates between trading companies and industrial companies has outlived its utility. I therefore propose to remove this distinction.

92. I recognise that in the medium term the rates and structure of corporate taxation have to be consistent with the needs of an economy aiming to become internationally competitive. I shall attend to this task as soon as we have overcome the present fiscal crisis.

93. In our economy, labour is abundant and capital is scarce. These economic realities have to be reflected in our fiscal policy. Yet, over the years, the Indian economy has witnessed a disturbing shift towards greater capital intensity in production. This has led to distortion and avoidable hardship in cases where labour is replaced, or employment potential reduced, by resort to capital intensive methods of production, even in cases where such a shift is not justified on other economic and technical considerations. Fiscal incentives have been conducive to such a shift. While there can be no compromise with the imperatives of technological upgradation and continuous modernisation, the tendency towards excessive capital intensity in our industry must be checked.

94. The rates for depreciation prescribed in 1987, in relation to plant and machinery, are far too generous and provide much more than is needed to compensate for wear and tear. These rates of depreciation do not reflect the true economic life of business assets. An asset would be almost fully written off in six years at the present rate of 33.33 per cent applicable to the bulk of plant and machinery. I think an eight year period would be more reasonable taking into account the pace of technological change in India, the true economic life of the business assets, and the need to discourage tax induced replacement of assets. Therefore, I propose to reduce the general rate of depreciation for machinery and plant from 33.33 per cent to 25 per cent. I also propose to reduce the rate of depreciation for aeroplanes, motor buses, motor taxis and some other equipments from 50 per cent to 40 per cent, which would mean almost complete recoupment of cost in six, instead of five years. However, to encourage use of energy saving devices and renewable energy devices, I propose to continue to provide 100 per cent depreciation on such items of plant and machinery as also some others. Further, I also propose to restrict the rates of depreciation to 50 per cent of the normal rates of depreciation in cases where the asset is used for less than 6 months in a year.

95. Tax support to special institutions may be necessary in their nascent stage. However, it should not be extended in perpetuity. Such institutions must strive to become self-reliant. The Industrial Development Bank of India (IDBI) has been enjoying complete tax exemption in respect of its income since its inception, unlike other public financial institutions. I propose to withdraw this tax exemption, which is no longer necessary.

96. In 1987, the Government had introduced a tax on ostentatious expenditure. It is in the form of a tax of 20 per cent of expenditure incurred in hotels where the room rent exceeds Rs.400 per day. I propose to extend the coverage of this tax to the expenditure incurred in restaurants providing superior facilities like air-conditioning. This tax will be levied at the rate of 15 per cent of such expenditure.

97. In view of the binding fiscal constraints and the need to mobilise resources, I propose to revive the interest-tax which was first introduced in 1974 and withdrawn in 1978, re-introduced in a modified form in 1980 and finally withdrawn in 1985. I am enlarging, slightly, the coverage of this tax. The new tax will be levied on the gross amount of interest received by all banks, financial institutions and non-banking financial companies in the corporate sector on loans and advances made in India. These institutions would reimburse themselves by making necessary adjustments in the interest rates charged from borrowers. The proposed tax is

expected to raise the cost of borrowing and yield revenue to the Government. It should, therefore, have both monetary and fiscal impact.

98. The proposed tax will be levied at the rate of 3 per cent of the gross amount of interest earned by banks, financial institutions and financial companies on loans and advances made in India. Interest received on transactions between the various credit institutions will be exempted from the proposed tax. The proposed tax will operate prospectively and interest accruing before 1st October, 1991 will not be taxed. The proposed tax will be allowed as a deduction in computing taxable income under the Income-tax Act.

99. I do not propose to take up the time of the House with other minor changes in the Direct Tax Laws.

100.My proposals on direct taxes are estimated to yield a net revenue gain of Rs.2139 crores. Of this amount, Rs.97 crores will accrue to the States.

101.Honourable Members of the House are aware that the balance of payments situation is exceedingly difficult. In order to attract larger inflows of foreign exchange, I propose to introduce two schemes.

102.Under the first scheme, I propose that remittances in foreign exchange can be made to any person in India. Even if the remittance is received as a gift by the donee in India, it would not be subjected to gift tax. The source of funds out of which the remittances are made would not be subject to scrutiny under the Direct Tax Laws and Exchange Control Regulations. In other words, I propose to provide immunity for such remittances under these laws. The provisions of Direct Tax Laws will apply in the normal manner to the rupee proceeds of these remittances. The scheme will come into immediate effect and will be open until close of business on 30th November 1991. The details of the scheme will be announced by the Reserve Bank of India. I also propose to introduce the necessary legislation in this regard as early as possible before this House.

103.Under the second scheme, the State Bank of India would issue India Development Bonds to be denominated in US dollars. These bonds will be available for purchase by non-resident Indians and their overseas corporate bodies. There will be no ceiling for investment in these bonds which will have a maturity period of five years. The bonds will be fully transferable among non-resident Indians. Interest from the bonds will be exempt from income tax. The bond itself would also be exempt from wealth tax until maturity. For the non-resident holder, the face value of the bond and the interest thereon would be repatriable with exchange rate protection. The bonds can also be gifted to residents, who would be provided with amnesty and immunity, as in the first scheme for inward remittances. Such amnesty and immunity will be available only to the first resident donee. The gift would be exempt from gift tax. The resident donee bond holder would also be entitled to exchange rate protection, and the same exemption from income tax and wealth tax, until maturity, but the proceeds will be paid only in rupees in India and would not be remittable abroad. The bonds will be available for sale at all important branches of the State Bank of India abroad until close of business on 30th November 1991. The details of the scheme will be announced by the Reserve Bank of India. I would also bring before this House the necessary legislation at the earliest.

104.In formulating my proposals on indirect taxes, I have kept in mind the wider context. In keeping with the promises made in the election manifesto of our party, we have also to ensure that prices of essential commodities and goods used by the common man are kept well under check. Conspicuous consumption must be curbed and the burden of taxation should be borne by the more affluent sections of the society. In the light of these imperatives, I have attempted to structure the proposals for customs and excise levies in a manner that indigenous industries are encouraged, and, at the same time, imports of items required for export production are not thwarted. In the long term, if revenues are buoyant and tax compliance improves, I expect to bring down the rates of customs and excise levies. Even now, some moderation in import duties is being attempted and a more broad-based effort may be attempted to streamline the structure and reduce the rates in the next budget. I have also tried to ensure that the proposed changes improve competitiveness of the industrial sector, particularly the export oriented industries.

105.It is my intention to rationalise and simplify the procedures, rules and regulations pertaining to indirect taxes, so that the delays in the system are eliminated, and the interface between the tax collector and the tax payer is reduced to the minimum. Given the paucity of time, it has not been possible to undertake such an exercise in this budget, but we should be able to formulate concrete measures soon as a part of structural reforms in the tax system.

106.Recent years have witnessed an excessive reliance on indirect taxes for additional resource mobilisation. This escalates costs, fuels inflation and is regressive in its impact. Therefore, I have not relied on indirect taxes as the major source of resource mobilisation. Indeed, the overall impact of my proposals for customs and excise levies is revenue negative in so far as the Central Government is concerned.

107.In the sphere of customs duties, over time, the objective of protection for infant industries and the need to raise revenues have led to a situation where import duties prescribed for certain items are inordinately high and, in several cases, more than 300 percent. As a measure of reform, I propose to reduce the ad valorem rate of basic plus auxiliary duties of customs to a maximum of 150 per cent where it is more than that at present, thereby eliminating the tariff peaks above 150 per cent. The only exceptions that would remain hereafter are imported alcoholic beverages and passenger baggage. The revenue loss on this account would be Rs.132 crores in a full year.

108.In view of the deterioration in the fiscal situation last year, auxiliary duty of customs was increased across-the-board, with effect from 15th December, 1990, so as to mobilise additional resources. The increase was not quite rational and was asymmetric in its incidence. In some cases, the auxiliary duty went up by 20 percentage points - from 5 per cent to 25 per cent and from 30 per cent to 50 per cent, while in some others, by just 5 percentage points i. e., from 45 per cent to 50 per cent. This steep and uneven increase imposed a very high burden of duties on certain items, and also led to distortions in the overall rate structure. In order to remove the anomalies which had been created and rationalise rates of duties, I propose to give a duty relief of 10 percentage points to almost every item which suffered an increase of 20 percentage points. Moreover, on certain items, which are important from the point of view of environmental protection, export promotion, saving of foreign exchange and so on, I propose to roll back the rates to levels prevailing before 15th December, 1990. These items include waste paper, wood in the rough, jigat used in the manufacture of Agarbattis, ethylene, machinery for fuel injection equipment and certain items of machinery for printing and the newspaper industry. These proposals will result in a revenue loss of Rs.472 crores in a full year.

109.The prevailing rates of import duty on capital goods for general projects and machinery are, in general, high. While I cannot make a substantial reduction at this stage because of the revenue implications, which are considerable, I propose to reduce the level of duties from 85 per cent to 80 per cent. In tandem, the rate of duty on their components is also being reduced by 5 percentage points, from the existing levels of 65 or 70 percent. This proposal would mean a revenue loss of Rs. 167 crores in a full year.

110.A technology upgradation scheme was launched in 1987 by the late Shri Rajiv Gandhi. Under this scheme, fiscal relief was provided on import of capital equipment for the manufacture of power generation equipment, paper machinery, textile machinery and many others to promote domestic production of such machinery. The scheme has been instrumental in bringing about considerable improvement in the quality of machines produced in India. In order to give a further thrust to the scheme, I propose to expand the list of machinery items which will now attract a concessional duty of 50 per cent. The revenue loss on this account is estimated at Rs. 5 crores in a full year.

111.We have recently taken several innovative steps to give an impetus to our exports. I would now like to outline some fiscal measures which will give a further boost to the export effort.

112.At present 100 per cent export oriented undertakings or units in a free trade zone are allowed to divert a certain proportion of their production to the domestic market. However, the present stipulation, that excise duty payable must be equal to the import duty, has proved to be a deterrent. These units have to be fostered if they are to compete effectively in the international market; for this purpose they should not be prevented from creating a niche in the domestic market. Accordingly, I propose to reduce the excise duty on the goods, permitted to be sold in the domestic market under the scheme, to a level which would be equivalent to half the import duty leviable on such goods subject, inter alia, to the condition that the duty would not be less than the excise duty levied on similar items produced in the domestic tariff area.

113.To promote the growth of the marine products industry, fiscal relief has been given by way of customs duty concession on specified machinery items required by this industry. I propose to extend the duty concession to a few more items of such machinery. Out of my concern for the welfare of our fishermen, I also propose to fully exempt from excise duty specified yarns which are generally used for making fish-nets.

114.In order to encourage the growth of the finished leather industry and also as a measure of export promotion, I propose to reduce the basic and auxiliary duties of customs on polyurethane film and foil, as well as polyols from 150 per cent to 40 per cent. The duty on isocyanates is being reduced from 120 per cent to 40 per cent. The import duty on two important leather preservatives, namely TCMTB and PCMC, is being reduced from over 150 per cent to 50 per cent. These preservatives will replace certain other chemicals which are suspected to have carcinogenic effects. I also propose to extend the concessional duty, available at present to specified capital goods required by the leather industry to a few more items of such machinery.

115.Synthetic cubic zirconium, which is the closest imitation of natural diamonds, has the potential to provide job opportunities for a large number of artisans. The jewelry made therefrom also has a significant export potential. In order to encourage indigenous manufacture of cubic zirconium, I propose to reduce the import duty on the raw materials viz. zirconium oxide and yttrium oxide to the level of 40 per cent from the present level of over 150 per cent.

116.Our Government attaches the highest priority to agriculture. One of the promises made in our election manifesto is to provide a massive thrust to food processing and other agro-based industries, in an endeavour to increase the income of farmers, create employment opportunities, diversify the rural economy and foster rural industrialisation. As an important step in this direction, I propose to exempt agro-based products such as sauces, ketchup, butter, cheese, skimmed milk powder, vegetable oils, jams, jellies and juices, canned fruits and dried vegetables, certain soya products, starches and preparations of meat and fish from excise duties altogether. I am doing so to promote the diversification of our agricultural economy, to increase the farmers' share of the consumer's income spent on processed agricultural products, to promote rural industrialisation based on agricultural produce and to encourage the adoption of modern post-harvest technologies. The measures I have proposed, I expect, will also lead to some reduction in consumer prices of such products, providing relief to the harassed consumers in a period of rising prices. The revenue loss will be Rs.84 crores but I am convinced that the overall gain to the economy will more than offset the loss to the exchequer.

117.As a relief to the agro-based jute industry, which has been beset with chronic problems, I propose to reduce the excise duty on products which contain a minimum of 35 per cent of jute fibre from Rs.660 to Rs.330 per metric ton.

118.At present a number of specified bulk pesticides and pesticide intermediates enjoy concessional import and excise duties. I propose to extend the duty concession to a few more bulk pesticides and pesticide intermediates. The proposals involve a revenue loss of about Rs.11 crores in a full year.

119.There is a money credit scheme in vogue to encourage the use of minor oils for the manufacture of soaps. I propose to increase the money credit of Rs.640 per metric ton that is currently available in respect of rice bran oil used in the manufacture of soap to Rs. 1000 per metric ton. In addition, I propose to include some more non-conventional oils and solvent extracted oils in the scheme. This would also help in generating more employment for our tribal women. These proposals involve a revenue sacrifice of about Rs 10 crores in a full year.

120.The MODVAT scheme was introduced in 1986 to minimise the cascading effect of indirect taxes. The scheme has been well received by the industry, and there have been persistent demands for its extension to other areas. I propose to reintroduce the scheme in respect of aerated waters, and also to extend it to cover man-made fibres and filament yarns in respect of their inputs. While extending the scheme to fibres and yarns, I do not propose to raise the duty on those fibres and yarns on which the duty was increased as recently as December, 1990. On other fibres and yarns, the duty rates have been adjusted with a view to retaining the collection of excise duties at the earlier level. But duties on polypropylene monofilament and multifilament yarns are being increased to raise additional revenue. In respect of aerated waters also, I do not propose any increase in duty. The proposals involve a revenue loss of about Rs.230 crores in a full year. I expect that the benefit would be passed on to the consumers in the form of reduced prices.

121.I propose to rationalise the existing excise duty rates on polyester blended yarns. As an anti-evasion measure, I also propose to charge additional excise duty on cotton fabrics containing 40 per cent or less of polyester at the same rates as applicable to cotton fabrics containing more than 40 per cent of polyester. The proposals involve a revenue gain of about Rs. 23 crores in a full year.

122.In our effort to make essential drugs available to the people at affordable prices, I propose to fully exempt five specified anti-epileptic formulations from excise duty. At present, some drug intermediates and bulk drugs carry a concessional rate of import duty. I wish to extend the concession to a few more drug intermediates and bulk drugs, and grant concessions in excise duties to a few more drug intermediates.

123.In keeping with our commitment to give special priority to cottage, khadi and village industries, I propose to give some excise duty concessions to this sector. At present, footwear of value not exceeding Rs.100 per pair manufactured in rural areas by registered co-operative societies, women’s societies or by institutions recognised by KVIC, are fully exempted. I propose to raise the value limit of exemption to Rs. 150 per pair. Further, I propose to extend to synthetic detergents the benefit of full exemption from excise duty that is presently available to specified products when manufactured in rural areas by registered co-operative societies, women’s societies, institutions recognised by KVIC etc.

124.I would now like to outline some of the steps that I propose for the protection of our environment and for ecological security. In view of our dwindling forest cover, we must conserve our scarce resources. Therefore, as I have stated earlier, the import duty on waste paper and wood in the rough is proposed to be rolled back to the rates that were prevailing before 15th December, 1990. I also propose to fully exempt from excise duty aluminium doors, windows and their frames so as to encourage the use of aluminium in the place of wood in construction activities. Fly ash is a pollutant. It can, however, be put to productive use in the manufacture of bricks and other construction materials. In order to encourage such use, I propose to fully exempt from excise duty various building components containing more than 25 per cent of fly ash or phosphogypsum. I also propose to exempt phosphogypsum which is one of the bye-products of the fertilizer industry from excise duty to encourage its use by farmers.

125.Few would disagree that I am one of the most harassed Finance Ministers in recent times. To perform the onerous task before me, I need support from the Press. As a gesture of goodwill, I propose to exempt standard newsprint from import duty which is, at present, Rs. 450 per metric ton. I have already proposed to bring down the rates of import duty on certain specified machinery and equipment required by the printing and newspaper industry to the levels that were obtaining before 15th December 1990. The monetary limit of duty free import of photographic goods by accredited cameramen of the Press is being raised from the present level of Rs. 30,000 to Rs. 60,000. These proposals involve a revenue loss of over Rs. 9 crores in a full year.

126.Ever since my appointment as Finance Minister, I have had to spend long hours in office. This has quite naturally made my wife very unhappy. The House will agree that it is not good for the health of our economy if the Finance Minister of the country has strained relations with his own finance minister at home. I propose that the total exemption from payment of excise duty currently available to utensils made of aluminium, copper and stainless steel be extended to certain other household items particularly tiffin boxes.

127.The same consideration has induced me to propose a reduction in the excise duty on specified tableware produced by semi-automatic process from the present level of 20 per cent to 15 per cent. Mindful of the need for peace at home and also taking into account the labour intensive nature of the manufacture of glassware by the mouth blown process, I propose to reduce the excise duty on such glassware to 15 per cent uniformly. Some people may not applaud my action. But I am sure most housewives harassed by the ever rising price level will appreciate my action.

128.In keeping with the commitment in our election manifesto, I shall make every effort to ensure that indirect taxes do not unduly add to the prices of essential commodities. Of the items listed in the manifesto, at present, there is no excise duty on salt, cycles, newsprint, post cards, inland letters and envelopes, and certain varieties of stoves. Cotton sarees and dhoties attract only additional excise duty in lieu of sales tax which accrues wholly to the State Governments. I have earlier proposed to fully exempt edible oils from excise duty. Electric bulbs of upto 60 watts, are already exempt from excise duty. I now propose to fully exempt electric bulbs, of higher wattage, which presently attract a duty of Re. 1 per bulb, from the payment of excise duty. Energy efficient chulhas, too, would be exempted from excise duty. I also propose to reduce the excise duty on two wheelers of engine capacity exceeding 50 cc but not exceeding 75 cc from 20 per cent to 15 per cent.

129.I recognise that the tax reliefs I have given, by themselves, constitute only a small step towards the realisation of the objective mentioned in our manifesto in regard to prices of essential commodities. In pursuit of this objective, I propose to invite the representatives of industry and trade to sit together with our Government to work out modalities as to how best we can contribute to the realisation of the price objectives listed in our election manifesto, for the benefit of the common man.

130.In order to promote tourism which is an important means of earning foreign exchange, I propose to reduce the import duty on adventure sports equipment from rates ranging from about 100 to 300 percent to 40 per cent.

131.In keeping with the recent exchange rate adjustments of the rupee, I propose to raise the baggage allowances including duty free limits for bona fide gifts suitably; for instance the general duty free allowance for personal baggage is being raised from Rs.2000 to Rs.2400.

132.Let me now turn to the major proposals for additional revenue mobilisation.

133.At present special excise duty is being levied at the rate of 5 per cent of the basic excise duty. I propose to raise it to 10 per cent. Since the increase is only a percentage of the basic excise duty, the impact of the additional levy would be minimal on prices. For instance, in respect of any article on which the basic excise duty is say, 20 percent, the increase would be only 1 percent of the value. Tea, coffee, sugar, kerosene, matches, and vanaspati, being items of mass consumption, would remain exempt from special excise duty. In addition, I am ensuring that the increase in special excise duty will not apply to diesel and two wheelers. The proposal involves a revenue gain of Rs. 1010 crores in a full year, a substantial portion of which will accrue to the States.

134.One of the promises made in our election manifesto is to evolve policies and measures to curb conspicuous consumption. In pursuance of this, I propose to increase the excise duty rates on refrigerators, air-conditioners including compressors, motor cars, audio and video cassette tapes, video cassettes, picture tubes, colour television sets, VCRs and VCPs.

135.I propose to increase the excise duty on refrigerators by amounts varying from Rs.200 to Rs.800 depending upon the capacity, and in the case of air-conditioners, by amounts varying from Rs.2000 to Rs.30000. I also propose to raise the excise duty on compressors for air conditioners of a capacity not exceeding 7.5 metric ton by Rs. 1800. The expected additional revenue from these proposals is about Rs.91 crores in a full year.

136.Motor cars at present attract excise duty at the rate of 50 per cent. I propose to increase the excise duty to 60 per cent. The duty on taxis at 30 per cent will, however, remain unchanged. The proposal will yield an additional revenue of Rs.150 crores per year.

137.I propose to increase the excise duty on audio cassette tapes from Rs 3 to Rs 5 per sq. metre and on video cassette tapes from Rs 10.50 to Rs 15 per sq. metre. The estimated revenue gain from the proposal will be Rs.29 crores in a full year.

138.As regards colour television sets, I propose to increase the excise duty by Rs.500 and Rs.750 per set, depending on the screen sizes. I propose to raise the excise duty on colour picture tubes as well. I am exempting all black and white television sets from excise duty and shifting the burden to picture tubes. I also propose to increase excise duty on VHS type VCRs and VCPs by Rs.400 per set and Rs. 250 per set, respectively, and on other types of VCRs and VCPs, from 25 per cent to 30 per cent. The revenue gain on this account is Rs. 66 crores in a full year.

139.Every Finance Minister has to do his bit to curb smoking, which is injurious to health. I must also fall in line and add to the tax on cigarettes. In respect of non-filter cigarettes, I propose to raise the duties by Rs.10 to Rs.25 per thousand cigarettes depending upon the length. In respect of filter cigarettes, the increase will be between Rs.35 and Rs.125 per thousand cigarettes. However, filter cigarettes exceeding 85 mm will attract the ceiling rate prescribed in the excise tariff. This will give us additional revenue to the extent of Rs. 300 crores in a full year.

140.The excise duty on hand-made branded biris is Rs 3.75 per thousand. Although the duties on cigarettes have been increased almost every year, excise duties on biris have remained unchanged since 1986. I feel that biri smokers should not be denied the opportunity of increasing their share of contribution to the national exchequer. I accordingly propose to increase the duty on hand-made branded biris, other than paper rolled biris to Rs 4.50 per thousand. Paper rolled biris will attract a duty of Rs.10 per thousand. The present exemption on other hand made biris would, however, continue. The expected additional revenue is Rs.33 crores in a full year.

141.Pan masala not containing tobacco attracts a specific rate of excise duty. I propose to raise the excise duty on the same by Rs.5 and Rs.10 per kg. depending on its value. This involves a revenue gain of Rs.4 crores in a full year.

142.The excise duty on sugar, which is levied on a specific basis, has remained unchanged since 1983, with the result that the ad-valorem incidence has come down as the price of sugar has increased considerably over this period. In ad valorem terms, the present incidence of excise duty on levy sugar is more than the incidence on free sale sugar. In order to correct the situation, I propose to increase the excise duty on free sale sugar from the present level of Rs.50 to Rs.71 per quintal. This would mean an additional tax burden of 21 paise per kilogram of free sale sugar which costs about Rs.10 per kg in the market place. This proposal is expected to yield an additional revenue of Rs.122 crores in a full year. I would like to make it clear that I am not proposing any increase in excise duty on levy sugar which is sold through the public distribution system.

143.I propose to exclude khandsari sugar from the list of items chargeable to additional excise duty. The State Governments will be free to levy sales tax on khandsari sugar, if they so desire.

144.Molasses which is a bye-product of the sugar industry is presently subject to excise duty at the rate of Rs.120 per metric ton. A substantial portion of molasses is used in the manufacture of liquor. In the circumstances, it can bear a higher rate of duty. Accordingly, I propose to increase the excise duty on molasses to Rs.150 per metric ton. The estimated revenue gain from the proposal is Rs.13 crores in a year.

145.The details of the revenue implications of the measures announced are given in the Explanatory Memorandum to the Finance Bill.

146.I have also proposed certain amendments in the Finance Bill seeking to effect changes in the Customs Act, and excise and customs tariffs. These include certain consequential amendments to the customs tariff based on the amendments to the Harmonised Commodity Description and Coding System which has been adopted by our country in terms of the International Convention on the Harmonised System. The amendments are merely enabling provisions and do not have significant revenue implications. Besides, there are proposals for amendment of some of the existing notifications. In order to save the time of the House, I do not propose to recount them.

147.The increases in excise duties will lead to a revenue gain of Rs.1799.00 crores while the reliefs will amount to Rs. 358.06 crores in a full year. The net revenue gain from excise duties is thus Rs.1440.94 crores in a full year, of which the States will get Rs.750.04 crores leaving the balance of Rs.690.90 crores for the Centre. The proposals in regard to changes in the customs duties imply a revenue loss of Rs.822.52 crores and a revenue gain of Rs.78.00 crores in a full year. The net impact of the proposals relating to customs duties is a loss of Rs.744.52 crores in a full year. Thus, as compared with the additional net revenue of Rs.696.42 crores from customs and excise duties, the States would gain Rs.750.04 crores, while the Centre would lose Rs. 53.62 crores in a full year.

148.Copies of notifications giving effect to the changes in customs and excise duties effective from 25th July 1991, will be laid on the Table of the House in due course.

149.The proposals I have made in regard to direct taxes will yield Rs.2139 crores of which Rs. 97 crores will accrue to the States and Rs.2042 crores to the Centre. My proposals in regard to customs duties will involve a net revenue loss of Rs.510 crores in the current year while those relating to Union excise duties are estimated to yield a net additional revenue of Rs. 988 crores in the remaining part of the current year of which Rs. 515 crores will be the share of States and Rs. 473 crores will be retained by the Centre. Taking both direct and indirect taxes into account, the net gain to the Centre in the current year is estimated at Rs. 2005 crores and with this, the budgetary deficit of the Centre for the current year is estimated at Rs. 7719 crores, the revenue deficit at Rs. 13854 crores and the fiscal deficit at Rs. 37727 crores.

150.Sir, I have now nearly come to the end of my labour. Before I conclude, let me end on a personal note. Years ago, in a letter which Jawaharlal Nehru wrote to the young Indira Gandhi, he advised her that in dealing with the affairs of the State one should be full of sentiment but never be sentimental. But the House will forgive me if on an occasion like this I cannot avoid being somewhat sentimental.

151.I was born in a poor family in a chronically drought prone village which is now part of Pakistan. University scholarships and grants made it possible for me to go to college in India as well as in England. This country has honoured me by appointing me to some of the most important public offices of our sovereign Republic. This is a debt which I can never be able to fully repay. The best I can do is to pledge myself to serve our country with utmost sincerity and dedication. This I promise to the House. A Finance Minister has to be hard headed. This I shall endeavour to be. I shall be firm when it comes to defending the interests of this nation. But I promise that in dealing with the people of India I shall be soft hearted. I shall not in any way renege on our nation's firm and irrevocable commitment to the pursuit of equity and social justice. I shall never forget that ultimately all economic processes are meant to serve the interests of our people. It is only through a commitment to social justice and the pursuit of excellence that we can mobilise the collective will of our people for development, to give it a high moral purpose and to keep alive the spirit of national solidarity. The massive social and economic reforms needed to remove the scourge of poverty, ignorance and disease can succeed only if backed by a spirit of high idealism, self sacrifice and dedication.

152.The grave economic crisis now facing our country requires determined action on the part of Government. We are fully prepared for that role. Our party will provide an effective Government to our country. Our people are our masters. We see the role of our Government as one of empowering our people to realize their full potential. This budget constitutes a vital component of a comprehensive vision, a well thought out strategy and an effective action programme designed to get India moving once again.

153.Sir, I do not minimise the difficulties that lie ahead on the long and arduous journey on which we have embarked. But as Victor Hugo once said, "no power on earth can stop an idea whose time has come." I suggest to this august House that the emergence of India as a major economic power in the world happens to be one such idea. Let the whole world hear it loud and clear. India is now wide awake. We shall prevail. We shall overcome.

154.With these words, I commend the budget to this august House.

[24th July, 1991]

Budget 1994-95

Speech of

Shri Manmohan Singh
Minister of Finance

28th February, 1994

PART A

Sir,

It is with a sense of great privilege, and also deep humility, that I rise to present the Budget for 1994-95.

2. Less than three years have passed since our Party, under the inspiring leadership of Prime Minister Shri P.V. Narasimha Rao, came into office, as a minority Government at that time, facing the awesome task of rebuilding a shattered economy. The Prime Minister had pledged that we would give top priority to grappling with the grave economic crisis and put the economy back on a path of strong sustainable growth. In pursuit of this mandate we embarked on a far reaching programme of economic restructuring and reform.

3. Three years are not enough to complete economic restructuring in a country as complex as India, but it is time enough to take stock. I am sure all Honourable Members will agree that the economic situation has shown substantial improvement. Progress on the external front has been dramatic.

- Our foreign currency reserves, which were a little over $1 billion in June, 1991 are now close to $ 13 billion. Our gold, which earlier had been pledged abroad, is back in our possession.
- Exporters are responding very well to our sweeping reforms of exchange rate and trade policies. Our exports have increased by a remarkable 21 per cent in dollar terms in the first 10 months of 1993-94. This compares, for the corresponding period, with a decline of 3 per cent in 1991-92 and a rise of 2 per cent in 1992-93.
- Despite all the fears that liberalisation would lead to a flood of imports, the dollar value of our imports during April-January 1993-94 was less than one per cent higher than imports during the corresponding period of 1992-93. For the fiscal year 1993-94, imports are likely to be lower than even 1990-91.

- The current account deficit in our balance of payments during 1993-94 will be less than half a per cent of GDP compared to over 3 per cent in 1990-91 and 2 per cent in 1992-93.
- Contrary to what many feared, the exchange rate for the rupee has remained remarkably steady despite unification and lifting of trade controls. Foreign exchange is flowing through legal channels in ample quantities instead of through hawala transactions as earlier.
- International confidence in India has been restored. Foreign direct and portfolio investment, which was hardly $150 million in 1991-92, is likely to be around $3 billion in 1993-94.

4. The news on the domestic economy is also encouraging. Inflation has been reduced from the peak of 17 per cent in August 1991 to about half that level at present. Agricultural performance has been strong. Food stocks in the public system stood at over 23 million tonnes on 1st January, 1994. This is the highest level in seven years and provides invaluable insurance against any possible crop failure. Industrial growth is also recovering, though more slowly than we had hoped. Overall economic growth is estimated at about 4 per cent for the second year in a row. Fears that the reform programme might lead to a large scale increase in unemployment have turned out to be unfounded. The latest available data of persons registered with employment exchanges and seeking jobs show a fall of 1.4 per cent in November 1993 as compared to November 1992.

5. The slow growth of industry in 1993-94 is a matter of concern and is largely due to the sluggishness of the capital goods sector. If capital goods are excluded, the rest of the manufacturing sector shows 6 per cent growth in the second quarter and is expected to improve in the rest of the year. The recession in the capital goods industries is primarily because investment activity slowed down temporarily as firms adjusted their investment plans to the new situation. There are signs that this restructuring process is well advanced and many companies are now launching major programmes to enhance their international competitiveness. The turnaround in investment is, therefore, beginning.

6. In real life the picture is never entirely rosy and there are some warning signals which we must heed. It has not been possible to contain the fiscal deficit in the current year to the level we had originally targeted. The slower pace of industrial recovery in 1993-94 led to a shortfall in revenues and various expenditures have also exceeded Budget estimates. The slippage in the fiscal deficit in 1993-94 has been less damaging than might have been the case ordinarily, mainly because of the existence of sizeable idle industrial capacity and low investment levels. But as investment begins to revive, we cannot afford continuing weakness on the fiscal front. Unless the deterioration witnessed in the current year is speedily reversed, there is a serious danger that we may slip back into a position where large government deficits fuel inflation, widen the current account imbalance and push up interest rates, making it impossible to bring about the rapid economic growth we need to raise living standards and create productive jobs in adequate numbers.

7. In formulating this Budget, I have sought to address six major tasks:

- First, we must accelerate the reform and modernisation of our tax system we began two years ago.

- Second, we must correct the slippage in the fiscal deficit that has occurred in the current year.
- Third, we must build on the demonstrable success already achieved in the external sector where our strong performance has vindicated our strategy of phased integration with the world economy.
- Fourth, the Budget must provide a major stimulus for a strong industrial recovery, especially for investment and capital goods production.
- Fifth, and most importantly, we must reorient our development policies and programmes to address more effectively the problems of poverty, unemployment and social deprivation which affect a large mass of our people, particularly in rural areas.
- Sixth, we have to consolidate and deepen the progress we have made in restoring the health of our banking system.

8. Last year we moved to a unified, market-determined exchange rate system. The system has worked extremely well. The time has come to take the next step and move towards convertibility on the current account. Current account convertibility will substantially liberalise the access to foreign exchange for all current business transactions and also liberalise foreign exchange access for travel, education and medical expenses, etc. This will virtually eliminate reliance upon illegal channels for such transactions. The details of these liberalisations are being separately announced by the Reserve Bank. Consistent with the progressive liberalisation of our external payments regime, we shall review the Foreign Exchange Regulation Act, 1973, and undertake necessary changes, including, if necessary, its replacement by new legislation.

9. Our policies towards foreign direct and portfolio investment have yielded good results and have helped us reduce our reliance on foreign borrowing. Much of the direct investment approved has been for critical infrastructure sectors. As envisaged in my Budget speech last year, Government is currently negotiating bilateral investment treaties with several major investor countries.

10. Our external debt, which is a cause of concern, is growing more slowly now. It grew by about $6 billion per year on an average in the latter half of the 1980s. In 1990-91 the debt grew by over $8 billion. In 1991-92 and 1992-93, the increase averaged only about $3 billion. In the first half of 1993-94, external debt has increased by hardly $300 million. Furthermore, the recent increase in debt has been more than offset by the sharp increase in our foreign currency reserves. I would like to assure the House that we shall remain vigilant on this front so that external debt remains within prudent levels. There is no question of India falling into a debt trap. In fact, we propose to respond to the easier payments position by retiring some of the high cost debt we have incurred in the past. Indian companies will be freely permitted to pre-pay past foreign loans.

11. Honourable Members are aware that some of our external debt is owed to the IMF. We had approached the Fund in our hour of difficulty. Now that our payments situation has improved considerably and our reserves have been rebuilt to comfortable levels, we are in a position to repay the Fund somewhat ahead of schedule. Repayments of principal and interest amounting to $1.4 billion are due to the Fund in 1994-95. Instead of following the regular schedule of payments, we

intend to pre-pay the entire amount at the beginning of the year. This decision to pre-pay in no sense detracts from the excellent relations we have with the Fund which has helped us immensely in our time of need. We will not hesitate to seek financial support again, if conditions warrant.

12. At present exporters and other foreign exchange earners, are permitted to retain up to 15 per cent of foreign exchange receipts in an account designated in foreign currency. It has been decided to increase the percentage of retention allowed from 15 to 25 per cent. As a special incentive, for 100% Export Oriented Units and units in Export Processing Zones as well as units in Electronic Hardware Technology Parks and Software Technology Parks, the retention allowed will be 50 per cent. This facility is designed to protect exporters from having to incur conversion costs when they make payments for imports. The necessary notifications are being separately issued by the Reserve Bank of India.

13. Turning to the need to strengthen fiscal discipline, I have long felt that Government should not be able to finance its deficits by creating money, through unlimited recourse to the Reserve Bank, by issue of ad hoc Treasury Bills. This practice has also weakened the Reserve Bank's capacity to conduct effective monetary policy. As a corrective measure, I propose to phase out the Government's access to ad hoc Treasury Bills over a period of three years. In 1994-95 the budget deficit is being limited to about two-thirds of one per cent of expected GDP, or Rs.6,000 crore. Normally, net issue of ad hoc Treasury Bills for the year as a whole should not exceed this amount. It has also been agreed with the Reserve Bank that the net issue of ad hoc Treasury Bills should not exceed Rs.9,000 crore for more than ten continuous working days at any time during the year. If this happens, the Reserve Bank will automatically sell Treasury Bills in the market to reduce the level of ad hoc Treasury Bills. This is a historic step which will in due course contribute to a significant improvement in fiscal and monetary discipline, and give the Reserve Bank greater scope for effective monetary management. In subsequent years, the recourse to ad hoc Treasury Bills will be progressively reduced and by 1997-98, the Government will cease to have direct recourse to the Reserve Bank for financing its deficit and will have to meet its entire requirements through borrowing from the market.

14. Interest rates have an important influence on investment in industry and other sectors of the economy. There have been repeated demands that interest rates should be brought down. The minimum lending rates charged by banks have been brought down already by three percentage points over the past year. The Financial Institutions have also reduced their effective rates. I am happy to inform the House that the All-India Financial Institutions are now reducing their minimum lending rate by a further one percentage point to 14 per cent exclusive of interest tax. Simultaneously, the commercial banks' minimum lending rate on term loans of three years and above is also being reduced from 15 per cent to 14 per cent. The Reserve Bank is separately issuing the notification. These changes take effect from tomorrow and will help to stimulate investment in the economy.

15. Government had earlier proposed certain amendments to the Companies Act to streamline the Act in line with the contemporary requirements. Several representations have been received from industry seeking modifications of these proposals to give Indian companies an environment in which they can compete

effectively in the highly competitive market place. Government has reconsidered the matter in the light of these representations and it is proposed to submit a new Bill to Parliament which will be responsive to these concerns.

16. We live in a world where science and technology have become a major determinant of the power and wealth of nations. India is proud of the achievements of its scientists and technologists, but a great deal more needs to be done to make science and technology an effective instrument of national renewal. To accelerate the development and application of indigenous technology to production processes, I propose to credit the 5 per cent cess on payments of royalty for imported technologies which is presently collected under the Research and Development Cess Act, 1986, into a new Fund for Technology Development and Application. This Fund will be placed at the disposal of the Department of Science and Technology to help the indigenously developed technologies reach the stage of commercial application. Necessary amendments to this effect will be made in the R & D Cess Act. I shall propose some further measures to promote research and development when I come to my tax proposals.

17. I would like to assure the House that our policies are geared towards promoting a dynamic and internationally competitive industrial sector. I am confident that given our vast reservoir of skilled manpower and entrepreneurship, Indian industry has the capacity and the will to meet the challenge of global competition. Government and industry will work as active partners to usher in the second industrial revolution which is both more efficient and more employment-oriented. This year, my revenue proposals, to which I will come later, include a strong package of measures to boost industrial investment and capital goods production. Looking ahead, I have a vision of our industrial firms acquiring a global reach and their names becoming household words in far off, distant lands.

18. Let me now turn to some issues relating to agriculture. An adequate flow of institutional rural credit to agriculture is vital for the development of the rural sector and this flow at present is unduly low in relation to need. The reasons include high costs of intermediation incurred by banks and cooperatives, fundamental weaknesses in the institutional structure and unsustainable restrictions on credit and interest rate policy. I propose to take a number of significant steps to lay the basis for a long-term improvement in rural credit. The National Bank for Agriculture and Rural Development (NABARD) is the apex agency for rural credit. I am providing Rs.100 crore for augmenting its share capital and the Reserve Bank will contribute an equivalent amount. This will nearly triple NABARD's share capital and equip it to play a strong leadership role in strengthening the system of rural credit.

19. One of our major concerns in rural credit has been the weak condition of the Regional Rural Banks (RRBs). Of the 196 regional rural banks, as many as 150 have shown losses in each of the past five years. Many have completely wiped out their equity and reserves and in some the losses are eating into deposits. This is an unsustainable situation and long-term structural measures are necessary if these banks are to be rehabilitated. The Reserve Bank has already announced some measures giving RRBs greater flexibility in their lending operations to make them more viable. I propose to take up 50 of the 196 RRBs from all over the country in the course of 1994-95 for undertaking comprehensive restructuring, including cleaning up of their balance sheets and infusion of fresh capital. The form and modality of the restructuring and associated financial support will be worked out

during the year. The experience with these 50 RRBs will guide our approach in later years to the other RRBs. The success of this programme will depend on full cooperation from State Governments and sponsor banks, who are shareholders, as well as the employees of RRBs. Our objective is to transform presently weak and ailing RRBs into financially viable and effective instruments of decentralised rural banking.

20. In addition, we must find ways of strengthening the co-operative credit structure which has played a significant role in rural development through credit support. As against Rs.6,295 crore of new lending by co-operatives during 1992-93, they are expected to reach Rs.8,500 crore during 1993-94. During 1994-95 we are planning for a further increase to Rs.9,600 crore. This quantitative expansion must be accompanied by organisational and structural changes which ensure financial viability. The Government proposes to initiate a series of measures for strengthening the cooperative structure. NABARD will be entering into memoranda of understanding with State and District Cooperative Banks and concerned State Governments for implementing State-specific development action plans to revamp the cooperative system and improve its viability.

21. These measures to strengthen the rural credit system are being accompanied by a substantial increase in the budget provision for Rural Development to which I will come shortly. It will also be our objective to ensure that our policies towards agriculture eliminate all unnecessary restraints on farmers. Restrictions on domestic movement of foodgrains and other agricultural goods must be completely removed, so that our farmers can reap the benefits of an unified national market. They must also be increasingly free to export, thus not only making their due contribution to our national export effort, but also benefiting from profitable export opportunities.

22. Honourable Members are aware, we have embarked on a basic restructuring of the banking system aimed at ensuring full financial viability of its operations and strengthening its competitive capability. I provided a sum of Rs.5,700 crore as capital contribution to the nationalised banks in 1993-94 to help them make necessary provisions against bad and doubtful loans and meet the new capital adequacy norms. I had indicated last year that there would be additional capital needs in 1994-95 and 1995-96 and also that this burden could not be borne exclusively by the Budget. I am happy to report to the House that in December 1993 and January 1994, the State Bank of India successfully raised over Rs.2,200 crore from the public through issue of equity and another Rs.1,000 crore through a bond issue. To allow the nationalised banks to access capital markets in the same way, and mitigate the burden on the Budget, legislative amendments were introduced in the Lok Sabha in the Winter Session. Their speedy passage will help many of these banks to mobilise the capital they need to meet their requirements. Many nationalised banks will nevertheless require additional support during 1994-95 and I am providing Rs.5,600 crore in 1994-95 as additional capital contribution for these banks. As before, this capital will be provided in the form of Government bonds on which there will be no immediate cash outgo. Interest payments and amortisation will of course be a charge on future budgets.

23. I am grateful to this House for quick passage last August of the Recovery of Debt due to Banks and Financial Institutions Act, 1993 which provides for the establishment of Special Recovery Tribunals. These Tribunals will soon be

operational, and will play a major role in improving the recovery of banks' dues. I am also happy to report that the Reserve Bank is setting up the Board for Financial Supervision to supervise the banks and other financial institutions. To alert banks and financial institutions and put them on guard against borrowers who have defaulted in their dues to other lending institutions, the Reserve Bank of India is putting in place arrangements for circulating among banks and financial institutions names of the defaulting borrowers above a threshold limit. The Reserve Bank will also publish a list of defaulting borrowers in cases where suits have been filed by banks and financial institutions. Both these measures will encourage greater discipline among the borrowers.

24. The Government attaches high priority to reforms of the capital markets aimed at creating an efficient and competitive capital market subject to effective regulation by the Securities and Exchange Board of India (SEBI) which will ensure adequate investor protection. After a temporary setback in 1992 following the securities scam, the capital market recovered ground quickly. The funds mobilised in the capital market through public and rights issues, duly approved by SEBI, in the first ten months of 1993-94 were over Rs.18,000 crore, as compared to less than Rs.16,000 crore in the same period of 1992-93 and under Rs.6,000 crore for the full year, 1991-92. In addition, a number of Indian companies raised funds abroad through Euro-equity issues and Foreign Currency Convertible Bond Issues. The Government is committed to a thorough modernisation of the capital market and rapid improvement of trading practices with a view to ensuring transparency and speed of settlements. The model National Stock Exchange with screen-based trading is expected to begin operation by the middle of this year. The establishment of a Depository System of scrip-less trading is another important objective. Government intends to bring before Parliament separate legislation for the establishment of Depositories. The Government also proposes to make further amendments to the SEBI Act and the Securities Contracts (Regulation) Act in order to give additional powers to SEBI.

25. In my Budget speech last year, I had announced the establishment of a High-Powered Committee to study the insurance industry and make recommendations on directions for its development in future. The Committee on Reforms in the Insurance Sector was appointed under the Chairmanship of Shri R.N. Malhotra, former Governor of the Reserve Bank of India. The Committee has recently submitted its report, which underscores the need for progressive deregulation of the insurance sector to create a more competitive and financially strong insurance industry, functioning under an independent regulatory authority. The report is now under active consideration of the Government. It is my intention to evolve a broad national consensus about the future direction and content of reform in this important sector.

26. Efficient and abundant infrastructure services are a necessary precondition for the success of our economic reforms and especially for international competitiveness. Our electric power sector is faced with severe problems, including problems of financial viability of the State Electricity Boards which must be solved if the supply of reliable power is to keep pace with ever-increasing demand. The sector requires major changes in the working of State Electricity Boards, rationalisation of tariffs and restructuring of responsibilities for generation,

transmission and distribution. A Committee of the National Development Council is looking into a comprehensive reform of our power system and it will be necessary to face up to a number of hard decisions in this sector.

27. Significant steps have been taken in the oil and gas sector to promote investment including private investment in exploration, development, refining and marketing. We propose to deepen and intensify these initiatives. To promote modernisation and investment in the coal industry, Government is reviewing the policy framework for investment, pricing and distribution. New initiatives are under consideration in the Telecommunications Sector.

28. I shall now briefly go over the Revised Estimates for 1993-94.

29. Budget estimates for 1993-94 had placed the total expenditure at Rs.131,323 crore. This is now expected to go up to Rs.143,872 crore, that is, an increase of Rs.12,549 crore.

30. Budget estimates for the current year provided Rs.41,251 crore as budget support for Plan Expenditure. This is now being increased by Rs.4,775 crore to Rs.46,026 crore. Of this increase Rs.3,493 crore are for assistance to States for financing their plans. A large part of this increase relates to externally-aided projects. I have also provided Rs.856 crore as advance plan assistance to special category States to cover their opening deficits and Rs.339 crore as additional special plan loan to Punjab to help that State in the process of recovery.

31. Under the Central Plan, a provision of Rs.600 crore has been made for the new Employment Assurance Scheme announced by the Prime Minister on 15th August, 1993. I have also augmented the current year's provision for the National Renewal Fund by Rs.320 crore, taking the total to Rs.1,020 crore. This increase will fund implementation of Voluntary Retirement Schemes in Public Sector Undertakings and also finance training and counselling.

32. Non-plan expenditure in the current year will require an additional provision of Rs.7,774 crore. An additional Rs.2,200 crore has to be provided for food subsidy and Rs.900 crore for fertilizer subsidy. I am including a provision of Rs.632 crore towards assistance to States for providing concession to farmers on decontrolled fertilizers. It has also become necessary to provide an additional Rs.2,320 crore for Defence expenditure. Honourable Members will appreciate that there can be no question of compromise on the external and internal security of our country.I am providing an additional Rs.303 crore more for Police. Other increases include Rs.219 crore for pensions and Rs.500 crore for loans to States as their share of small savings collections, following improved collections.

33. Gross tax revenue, which was estimated in the Budget at Rs.84,867 crore, is now expected to yield Rs.8,117 crore less. Of this, about Rs.822 crore is due to tax receipts of the National Capital Territory of Delhi flowing into its own Consolidated Fund from 1st of December, 1993. There is also a consequential reduction in expenditure on this account. The rest of the shortfall is mainly under Customs and Union Excise Duties. Customs revenue is Rs.5,227 crore lower than expected mainly because imports have not increased as originally estimated. There is a shortfall of Rs.2,001 crore in excise duty mainly due to the setback in production in certain high revenue yielding sectors of the economy. Due to the delay in finalisation of the procedure for disinvestment of equity holding

in Public Sector Enterprises, the related receipts this year are estimated at Rs.2,500 crore compared to the Budget estimate of Rs.3,500 crore.

34. The shortfall in receipts has necessitated a larger resort to borrowings. However, I have made serious efforts to ensure that the increased borrowing does not lead to excessive growth of high powered money. Instead, we have seen to it that the Government has borrowed on the basis of market-related instruments such as the 364 days Treasury Bills which were started in 1992-93. We have also introduced certain other new instruments such as zero coupon rate bonds and 3 year loans for conversion of maturing 364 days Treasury Bills.

35. External loans net of repayments are placed at Rs.3,837 crore compared to the Budget estimate of Rs.5,454 crore.

36. Taking into account other variations in receipts and expenditure, the current year is expected to end with a budget deficit of Rs.9,060 crore. The fiscal deficit, which was estimated at Rs.36,959 crore in the original Budget, is now expected to go up to Rs.58,551 crore. The fiscal deficit as a percentage of GDP will, therefore, be 7.3 per cent, which is much higher than projected at the budget stage. I am far from happy with this development. But, as I have stated earlier, there were special circumstances in 1993-94 which warranted somewhat higher deficit. In a situation characterised by idle industrial capacity, I was concerned that an attempt to bring about a sharp reduction in the fiscal deficit might well have been counter-productive. However, we cannot afford to repeat large fiscal deficits. We must return to the path of fiscal rectitude.

37. I now turn to the Budget estimates for 1994-95.

38. In order to maintain the tempo of development activities, the budgetary support for the Central Plan 1994-95 has been increased to Rs.27,278 crore from Rs.23,241 crore in Budget estimates 1993-94, an increase of about 17.4 per cent. The total outlay of the Central Plan of Rs.70,141 crore for 1994-95 will be financed by budgetary support to the extent of 39 per cent as against 36 per cent in Budget estimates 1993-94. The balance of the Central Plan outlay will be financed by the internal and extra-budgetary resources of the Central Public Sector Enterprises.

39. I am providing Rs.19,304 crore as Plan assistance to States and Union Territories in 1994-95 compared to Rs.18,010 crore in Budget estimates 1993-94. The total budgetary support from the Central Government's budget to the Central and the State Plans will be increased by 13 per cent from Rs.41,251 crore in Budget estimates 1993-94 to Rs.46,582 crore in 1994-95.

40. The increased budgetary support to the Central Plan is being directed to support higher outlays in important social sectors such as Rural Development, Education, Health and Family Welfare and Women and Child Development, and Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes. In response to the vital need for greater employment generation and capital formation in rural areas, and in order to focus more sharply on alleviation of rural poverty, the outlay for the Department of Rural Development has been increased from Rs.5,010 crore in Budget estimates 1993-94 to Rs.7,010 crore in 1994-95, representing a massive increase of 40 per cent over the previous year. Honourable Members will recall that the allocation for Rural Development was Rs.3,100 crore

in Budget estimates 1992-93. In two years, we have more than doubled this provision. For the new Employment Assurance Scheme announced by the Prime Minister on 15th August, 1993, which is being implemented in 1752 identified blocks, an outlay of Rs.1,200 crore has been provided as compared to the 1993-94 outlay of Rs.600 crore. Similarly, the allocations for the Jawahar Rozgar Yojana have also been enhanced from Rs.3,306 crore in Budget estimates 1993-94 to Rs.3,855 crore in 1994-95. It is estimated that 1150 million mandays of employment are likely to be generated in 1994-95. I have also increased the allocation for the Accelerated Rural Water Supply Programme, including the Rajiv Gandhi National Drinking Water Scheme, by Rs.150 crore in 1994-95.

41. The Prime Minister's Rozgar Yojana was launched on October 2, 1993, to provide self-employment opportunities to one million educated unemployed youth in the country by setting up 7 lakh micro enterprises through industry, service and business ventures. The Scheme intends to cover urban areas during 1993-94 and whole of the country from 1994-95 onwards. A provision of Rs.145 crore has been made for 1994-95.

42. The outlay for Agriculture will be Rs.2,005 crore in 1994-95. A major thrust is being given to horticulture development, with a 42 per cent increase in allocation from Rs.130 crore in Budget estimates1993-94 to Rs.184 crore in 1994-95. A major scheme for promoting use of plastics in drip irrigation is under implementation for which an enhanced outlay of Rs.45 crore has been kept during 1994-95.

43. In the Eighth Plan, we have given high priority to the development of human resources. The bulk of outlay for this sector is in the plans of the States. The outlay for education in the Central plan is being increased by 17.6 per cent, to Rs.1,541 crore in 1994-95. Special efforts are being made for strengthening of elementary education, for which the outlay has been increased from Rs.442 crore in Budget estimates 1993-94 to Rs.523 crore in 1994-95. The allocation for the University Grants Commission has been increased from Rs.159 crore in the Budget estimates for 1993-94 to Rs.209 crore in 1994-95. Special allocations have been made to upgrade the quality of libraries and laboratories in the system of higher education. Provision has also been made for the establishment of an Indian Institute of Technology and for two Central Universities in Assam.

44. The outlay for Health has been increased by nearly 20 per cent from Rs.483 crore in Budget estimates 1993-94 to Rs.578 crore in 1994-95. A revamped National Programme for the Control of Blindness, will be implemented from the next year. The allocation for the Leprosy Eradication Programme has been increased from Rs.35 crore in Budget estimates 1993-94 to Rs.94 crore in 1994-95. Control and prevention of AIDS is of paramount importance; an increased provision of Rs.83 crore has been made for 1994-95.

45. The outlay for the Department of Family Welfare has also been increased from Rs.1,270 crore in Budget estimates 1993-94 to Rs.1,430 crore in 1994-95.

46. The provision for the Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, inclusive of support to States for specified schemes, has been increased in 1994-95 to Rs.982 crore. The share capital contribution by the Central Government to the National Scheduled Castes and Scheduled Tribes Finance

and Development Corporation and the National Backward Classes Finance and Development Corporation is being increased from Rs.53 crore in Budget estimates 1993-94 to Rs.76 crore in 1994-95.

47. Recognising the critical role of infrastructure, Plan outlays in Power, Petroleum and Natural Gas, Telecommunication, Railways and Transport, have all been increased. The Plan outlay for power sector has been raised from Rs.7,461 crore in Budget estimates1993-94 to Rs.8,464 crore in 1994-95; and within this total, the budget support for this sector has been increased by over 27 per cent from Rs.2,445 crore in Budget estimates 1993-94 to Rs.3,117 crore in 1994-95. The Plan outlay for the Telecommunication services has been increased from Rs.6,321 crore in Budget estimates 1993-94 to Rs.7,246 crore in 1994-95. The outlay for Roads has been stepped up from Rs.593 crore in Budget estimates 1993-94 to Rs.665 crore in 1994-95. We have also increased the budget support to the Railways by 20 per cent from Rs.960 crore in Budget estimates 1993-94 to Rs.1,150 crore in 1994-95. To sustain long-term development, cost recovery for infrastructure services has to become much more effective. Investments in infrastructure sectors must increasingly be financed through internal and extra-budgetary resources of Public Sector Undertakings.

48. The role of science and technology is critical for modernising our economy and making it globally competitive. The outlay for the Department of Science & Technology has been raised by 19 per cent from Rs.189 crore in Budget estimates 1993-94 to Rs. 225 crore in 1994-95.

49. Total non-plan expenditure next year is placed at Rs.1,05,117 crore compared to Rs.97,846 crore in the Revised estimates of current year. I have to draw the attention of the Honourable Members to a major factor which has been contributing to the sizeable increase in non-plan expenditure year after year, and this is the interest burden. The provision for interest payments next year is placed at Rs.46,000 crore. This is an increase of Rs.8,000 crore over the current year's Budget estimates whereas the increase in total non-plan expenditure is Rs.15,045 crore. Honourable Members will appreciate that the major part of the interest burden is a legacy from the past and it continues to grow because of the continued high level of Government borrowing. Interest payments can be reduced only if we can implement a programme of phased reduction in the Government's total borrowing requirements or fiscal deficit. This can become a reality only if our tax system becomes more buoyant, our public enterprises generate more internal resources and we reduce expenditure on subsidies. A bold programme for disinvestment of government equity in public enterprises and earmarking a part of the sale proceeds purely for debt reduction would also be of great help.

50. Defence is another important element in non-plan expenditure. We cannot take chances with our national security. I am, therefore, providing Rs.23,000 crore for Defence as against Rs.19,180 crore in the Budget estimates for 1993-94 which was itself raised to Rs.21,500 crore in the Revised estimates. I am providing Rs.4,000 crore each for food subsidy and fertilizers subsidy. I am also providing Rs.341 crore being the balance amount payable by Government under the scheme of Debt Relief to Farmers. Furthermore, I am providing for a net expenditure of Rs.365 crore on account of Government's assumption of exchange loss liability on Foreign Currency Non-Resident Accounts Scheme, which was previously borne by the Reserve Bank of India.

51. The provision made in next year's Budget for non-plan expenditure other than the provisions for interest payments and defence is actually Rs.2,729 crore less than in the Revised estimates for the current year.

52. Coming to receipts, gross tax revenue at existing levels of taxation is placed at Rs.87,136 crore. States' share of taxes next year is estimated at Rs.24,394 crore compared to Rs.22,244 crore in the Revised estimates of current year. External loans net of repayments are placed at Rs.4,279 crore compared to Rs.3,837 crore in the current year's Revised estimates.

53. Taking into account maturing liabilities, the net Small Savings collections next year are placed at the same level as in the current year, that is, Rs.6,000 crore. I am taking a credit of Rs.4,000 crore next year as receipts from disinvestment as a continuation of the policy of mobilising non-inflationary resources from the sale of public sector equity. Total receipts are estimated at Rs.1,45,699 crore and total expenditure at Rs.1,51,699 crore leaving a gap of Rs.6,000 crore.

PART B

54. I now turn to the tax proposals for 1994-95. This year I shall begin with the proposals relating to indirect taxes.

55. Over the years, our indirect tax structure has grown into a complex maze of high and multiple rates, with numerous exemptions, and different rates being applicable for the same product for different uses and users. This has resulted in unnecessary complexity leading to administrative abuse, mounting litigation and uncertain economic impact. All this has effectively eroded the tax base and buoyancy of the system and created serious economic distortions. My proposals, in both customs and central excise, aim at simplifying the structure and continuing the process of moving to moderate rates of taxation.

56. Customs duties though lowered in the past three budgets need to be brought down further to make key imported raw materials and capital goods available to Indian industry at reasonable costs and also to reduce unduly high levels of protection to industry. At the same time, the scale of duty reduction has to be calibrated to ensure that it does not place unreasonable pressure on domestic producers of similar products. In this framework, the key features of my customs tariff reform proposals are:-

- Further reduction in the peak rate of customs duty;
- Substantial reduction in duties on key raw materials, such as steel and chemicals;
- Reduction in customs duties on capital goods to boost investment combined with other incentives which will help the domestic capital goods industry;
- Reduction or removal of anomalies caused by import duties on raw materials and components being higher than on finished products;
- A systematic effort to unify rates on similar products to serve both economic rationality and to reduce the scope for classification disputes;

- A major pruning of notifications including end use exemptions to about half their present number, thus reducing discretionary power and possibilities for disputes;

57. I propose to reduce the peak rate of customs duty from 85% to 65%. Items like baggage and liquor will however continue to attract higher duty as at present.

58. Availability of capital goods at a reasonable cost is necessary to enhance our competitiveness and promote investment. It is also necessary to ensure that our domestic capital goods industry, which has tremendous potential, is not at a comparative disadvantage due to anomalies in the tax structure . To further both these objectives , I propose the following package of measures:

(a) I propose to reduce basic customs duty on project imports and general capital goods from 35% to 25%. The facility of project imports is being extended to include port development. All this will help to reduce cost of investment and modernisation in Indian industry. Import duty on parts, whether imported as parts of original equipment, or as spares is also being reduced to 25% from the present rates varying from 25% to 85%. Import duty on fertiliser projects and power projects will continue at nil rate and 20% respectively without any countervailing duty.

(b) Domestic suppliers of capital goods have consistently argued that if domestic capital goods are to compete with imports, there should be a countervailing duty on imports of capital goods equivalent to the excise duty on domestic capital goods. I propose to accept this demand.

(c) I am simultaneously extending the benefit of Modvat to capital goods so that full credit of excise duty paid on domestic capital goods or countervailing duty paid on imported capital goods will be available at one time. This has been a long standing demand of all sectors of Indian industry.

(d) At present, machine tools attract duty at varying rates of 40%, 60% and 80%. I propose to simplify the structure by charging duty at 35% or 45% only.

(e) With the reduction of duty on finished capital goods it is necessary to reduce the customs duty on steel, which is a key input. I propose to reduce the customs duty on steel from a range of 75% to 85% at present to 50%. Import duties on primary forms of major non-ferrous metals copper, zinc and lead are also being unified at 50%. These proposals will give a strong boost to investment in the economy and will help the domestic capital goods industry, in particular.

59. To help domestic metal producers, the import duties on all ores and concentrates are being reduced and unified at 10%. To reduce the cost of inputs for the secondary steel sector, I propose to reduce the import duty on melting scrap from 12.5% to 10% and on iron ore pellets from 15% to 10%.

60. In order to give a thrust to the export efforts of our leather industry,

which is a major export earner, and is also employment intensive, I propose to reduce import duty on a large number of items of machinery and raw materials used in this industry from rates varying from 25% to 50% at present to a uniform level of 20% without the addition of countervailing duty.

61. Electronics and telecommunication are vital for rapid economic development and can greatly contribute to generation of both additional employment and exports. I propose to rationalise the tariff structure for these sectors as follows :

(a) The import duty on computer parts is being reduced from 80% to 50%. The duty on specified components is being reduced from 50% to 40% and on specified piece parts from 35% to 30%.. The import duty on application software is being reduced from 85% to 20% .

(b) In order to encourage the telecommunication sector, I propose to reduce import duty on non-electronic parts for manufacture of such equipment from 50% to 40% and on optical fibre from 85% to 40% to encourage manufacture of optical fibre cables in the country.

62. The domestic watch industry has a significant growth potential . To enable this industry to become internationally competitive, I propose to reduce the import duty on certain items of machinery for the industry from 50% at present to 25%. I also propose to reduce the duty on certain components and raw materials for the watch industry from 70% and 50% at present to 25% and 20% respectively.

63. The present import duty structure for medical equipment is complex and involves in some cases time consuming administrative procedure. The domestic industry is also not able to compete with imported equipment because it is now available duty-free to hospitals on production of certificates by designated authorities. In order to remove the above hindrances , I propose to abolish the system of certification for charitable hospitals and freely permit import of specified medical equipment at 15% without any countervailing duty. The list of such equipment is being separately notified and can be expanded on merits. Import at zero rate for government hospitals and for all specified life saving and sight saving equipment is, however, being continued. Import duty on other medical equipment which is at present 85% is being reduced to 40%. Components for their manufacture will be allowed to be imported at 15% customs duty. This differential will help manufacture of medical equipment by indigenous industry.

64. The import duty structure for coal and petroleum is being simplified. Crude petroleum and coal will attract import duty of 35% as against Rs.1500 per metric tonne and 85% respectively. Duty on coke is being reduced from 85% to 25%. LPG and other petroleum gases will attract import duty at 15%. Naphtha and kerosene will continue to be exempted from basic customs duty. Other petroleum products will attract an import duty of 30%. These changes do not affect the administered prices of petroleum products to consumers.

65. The present import duty structure for chemicals provides for a lower rate of duty of 15% for the basic feed stocks and peak rate of 85% for the finished chemicals. The overall dispersal of the rates is being reduced by the reduction of peak rate to 65%. In addition, duties on DMT, PTA and MEG are being reduced from 70% to 60% and on intermediates like xylenes and toluene, the duty is being

reduced from 40% to 30%. The 15% rate for basic feed stocks has been kept undisturbed.

66. In the pharmaceutical sector, import duty on a large number of raw materials which at present varies from 85% to 50% is being lowered to two rates of 50% or 25%. In a few cases, there has been some upward adjustment of import duty having regard to the need to protect the interest of domestic manufacturers of drug intermediates.

67. While I have no doubt that the phased reduction of customs tariffs is essential for the longer term interest of our industry, I am also fully aware of the concern of some industries about the dumping of certain imported goods at artificially low prices. I assure the House that our anti dumping provisions will be reviewed and further strengthened, if necessary.

68. I now turn to my proposals for central excise.

69. This Budget proposes a major reform of the excise tax structure as part of our programme of modernising our tax system. The principal features of this restructuring are:

- Extension of Modvat to capital goods and petroleum products;
- Shift in the bulk of excise taxation from specific to ad valorem rates which will assure much greater built -in buoyancy of revenues.
- Reduction in the total number of ad valorem tax rates to about half the existing number which will be a major step towards simplicity and transparency;
- Continuing the process of lowering rates when they are unduly high;
- Application of uniform rates for similar commodities to the extent possible. This will reduce classification problems, scope for misuse and widespread litigation;
- Removal of complicated price list procedure;
- Reduction of the number of special exemption notifications by about half.

70. These steps will promote growth of manufacturing output and employment, will make tax administration easier, less discretionary and also reduce the scope for misclassification, disputes and evasion. They will increase revenue elasticity and pave the way for an eventual adoption of a Value Added Tax.

71. Inevitably, a major restructuring involves changes in many rates for several products as products have to be reclassified into fewer rate categories. Furthermore, duty rates have been adjusted in some cases to compensate for loss of revenue because of the extension of Modvat. However, I have ensured that items of mass consumption are not burdened by higher taxes. For example, full exemption continues for many goods such as handloom products, unbranded drugs, domestic electric bulbs, bicycles, baby food, cooking oil, spices, jams, jellies, sauces, tea and coffee. And care has been taken not to raise the rates on, for example, sugar, matches and vanaspati. There should be no adverse effect on prices of essential items of consumption of the common man.

72. I will now highlight a few major areas of special interest.

73. Sir, the House may recall that the Modvat scheme was introduced in 1986. Its subsequent extension has greatly helped to reduce the cascading effect of input taxes. But the coverage remains incomplete. Petroleum products, textiles, matches, tobacco products and capital goods had been left out of the scheme. There is a persistent demand from industry to make the scheme more comprehensive. I now propose to extend the Modvat scheme to two important sectors namely, capital goods and petroleum products.

74. I propose to rationalise the structure for petroleum products. At present, the excise duty rates are specific. There are numerous exemptions depending on the end use. I propose to replace the existing specific rates by a uniform advalorem rate of 10% on all petroleum products with the exception of motor spirit which will attract duty of 20%. End use exemptions will be virtually eliminated. Existing concessions for the fertilizer industry are, however, being continued. These changes have no impact on the administered prices of these items.

75. The current duty structure for cotton and man made fabrics is a combination of ad-valorem and specific rates. I propose to switch over to ad-valorem rates of 5%, 10% and 20% only instead of the numerous specific and ad-valorem rates currently prevailing.

76. The present excise duty structure on fibres and yarns is complicated and different specific rates are prescribed for different varieties of yarn and fibres. This has required frequent testing of samples to determine the correct duty liability. In order to obviate all problems of classification and to make the excise duty neutral as between various fibres and yarns, I propose to impose a uniform excise duty of 20% on all fibres and blended or spun yarns. On cotton yarn, excise duty is, however, proposed at 5% only instead of the present complex and varying specific rates depending on the count of the yarn. As regards filament yarns, revenue considerations preclude moving to a uniform excise duty. I have thus proposed an ad-valorem duty rate of 60% for polyester filament yarn, 30% for nylon and polypropylene yarn and 15% for viscose filament yarn. For industrial yarns, lower rates of 30%, 20% and 10% have been prescribed. The scheme of Modvat is being extended to yarns made from fibres. With this Modvat will cover all yarns. These changes are largely a simplification and rationalisation of the structure. Combined with the reduction in customs duties, they should help to moderate prices in this sector.

77. I propose to fix a uniform duty of 15% on all metals, except aluminium for which the duty will be 20% as against 25% now. However, a lower duty of 10% will be available to pig iron and certain other products of iron.

78. The excise duty structure on drugs differentiates between Schedule I, Schedule II and other drugs. Schedule I drugs which are for the National Health Programme and are under price control are fully exempted from excise duty. This will continue. Single formulations of Schedule II drugs attract excise duty at 10% while other branded drugs pay excise duty at 15%. I propose to unify these rates at 15%. I propose to charge a moderate 10% excise duty on branded ayurvedic and homoeopathic medicines and medicines of other alternative systems. At present, bulk drugs producers cannot get full benefit of Modvat credit because the excise duty on bulk drugs is 5% which is too low. This is being raised to 10% to enable

them to get full credit. Unbranded drugs, however, will continue to be exempted from excise duty.

79. In order to simplify the duty structure for various chemicals and chemical based products like dyes, paints, tanning preparations, etc., I am proposing a uniform duty of 20% on such products instead of present rates varying from 5% to 25%. A uniform duty of 30% is being proposed for major bulk plastics , synthetic paints and detergents, which currently attract 35%.

80. The paper duty structure is complicated due to ad-valorem rates of nil, 10%,15%,25%,30%, specific rates and specific cum ad-valorem rates. This is now being simplified by making the general rate of duty on paper at 20%, keeping nil rate for news print, stationery articles etc., 30% for paper based laminates and floor coverings and 10% or 15% for paper made from unconventional raw materials. I am enlarging the scope of the exemption currently available to paper mills using unconventional raw materials. This exemption limits the benefit by clubbing the clearances of paper from more than one factory of a manufacturer. I am now allowing this concession to be availed of by each factory separately.

81. The duty rate of 70% applicable to cosmetics and similar personal care products are too high for items which are now increasingly forming part of the consumption basket of ordinary people. The rate is, therefore, being reduced to 50%.

82. I am also proposing certain changes in the general small scale industry exemption scheme. At present only registered units are eligible for concessions upto a clearance value of Rs. 75 lakhs. Non-registered units can get exemption only up to Rs. 30 lakhs. I propose to do away with this distinction so that small scale units can get the exemption meant for them irrespective of whether they are registered or not. This will satisfy one of the major demands of small scale industry. The scope of the small scale exemption scheme is also being expanded to cover a number of additional items including certain iron, steel and copper products.

83. Under the present scheme, a small unit manufacturing goods under the brand name of another unit is entitled to duty concession only if the brand name does not belong to a large unit. There have been reports of bigger units avoiding payment of duty by getting their brand names registered in the name of smaller units. This does not allow a small manufacturer to promote his own brand. With the advent of international brand names in the country, it is necessary to check the misuse of the scheme in the interest of domestic industry. I, therefore, propose that the benefit of duty concession would not be available to clearances of goods bearing the brand name of another manufacturer.

84. One of the persistent demands of the small scale industries has been to allow them to pay duty even though they are otherwise entitled to exemption as this will enable their customers to claim the benefit of Modvat credit. There is considerable merit in this request, and I propose to give the option to those who will like to exercise it.

85. It may be recalled that in the last budget, in order to give encouragement to the ship breaking industry, basic customs duty on ships for breaking up was reduced to 5%. Countervailing duty was payable in addition. Ferrous metals obtained from breaking up of ships were consequently exempted from excise duty. There

have been some disputes regarding liability of countervailing duty on ships for breaking up. In order to obviate the disputes, I propose to exempt ships for breaking up from countervailing duty and correspondingly adjust the basic customs duty to 15%. For the ship breaking industry, all goods obtained from such breaking up are also proposed to be exempted from excise duty so that ship breaking activity is completely outside the excise control.

86. As I am continuing the specific rates of duties on cigarettes, and these have remained unchanged for two years despite an increase in price, I propose to increase the duties on cigarettes by about 12%. However, in the non-filter segment, the excise duty for upto 60 mm category is being reduced from Rs. 120 per thousand to Rs. 60 per thousand, for increased utilisation of tobacco in this industry, which would in turn help the tobacco growers.

87. Over the years, while attempts have been made to widen the base for domestic indirect taxes, the services sector has not been subjected to taxation. Yet this sector accounts for about 40% of our GDP and is showing strong growth. There is no sound reason for exempting services from taxation , when goods are taxed and many countries treat goods and services alike for tax purposes. The Tax Reforms Committee has also recommended imposition of tax on services as a measure for broadening the base of indirect taxes. I, therefore, propose to make a modest effort in this direction by imposing a tax on services of telephones, non-life insurance and stock brokers. The tax will be charged at 5% on the amount of telephone bills , the net premium charged by the insurance companies, and the brokerage or commission charged by the stock brokers in relation to their services. These proposals will come into force from a date to be notified later on.

88. The existing system of determination of value of goods for charging excise duty is cumbersome and time-consuming. It involves filing of price lists in advance by the assessee and their approval by the excise officer. The process has to be followed whenever there is a change in the price. As a measure of procedural simplification, I have decided to dispense with the requirement of price lists. The assessee will now be allowed to pay excise duty on the basis of the value arrived at from the invoice. I am sure that this facility will be widely welcome by the industry. This will also help lay the ground for eventual adoption of a value added tax which relies on invoice value.

89. The details of the revenue implications of the measures announced are given in the Explanatory Memorandum to the Finance Bill.

90. I have also proposed certain other amendments in the Finance Bill seeking to effect changes in the Customs Act, and Excise and Customs Tariffs. The amendments are merely enabling provisions and do not have significant revenue implications. Besides, there are proposals for amendment of some of the existing notifications. In order to save the time of the House, I do not propose to recount them.

91. Copies of notifications giving effect to the above changes in customs and excise duties will be laid on the Table of the House in due course.

92. I now turn to my direct tax proposals for 1994-95.

93. I propose to carry forward the basic philosophy which has guided our tax reforms of moving to a simpler system with moderate rates of tax and a much greater reliance on broadening the base, with better tax administration.

94. I have received numerous representations from workers, trade unions, and other bodies representing middle class citizens for raising the exemption limit for income tax which is now Rs.30,000. I am persuaded that there is merit in the demand and I propose to raise the exemption limit to Rs. 35,000. With this, a salary or wage earner with a gross income of Rs. 50,000 will pay no income-tax. A working woman with a salary of Rs. 52,000 will also pay no tax.

95. I also propose to adjust the tax slabs which have not been changed for two years. At present, the first bracket is from Rs. 30,000 to Rs. 50,000 with a tax rate of 20 per cent. Henceforth the first slab will be Rs. 35,000 to Rs. 60,000, with the same rate of 20 per cent. tax . The second slab at present is from Rs. 50,000 to Rs. 1,00,000 with a tax rate of 30 per cent. Hereafter, the second slab will be Rs. 60,000 to Rs. 1,20,000 with the same rate of 30 per cent. tax. The maximum tax rate of 40 per cent. which at present applies to incomes above Rs.1,00,000 will henceforth be applicable to incomes above Rs. 1,20,000.

96. I had stated last year that I was forced to retain the surcharge of 12 per cent on non-corporate incomes for one more year. I am happy to announce that I now propose to withdraw the surcharge completely.

97. Last year, I had indicated that while major reforms of the corporate tax structure are desirable they would have to be deferred by one year. I now propose to implement these reforms which will help both our private and public sector companies to save more, invest more, and become more competitive.

98. At present, widely held companies are taxed at 45 per cent. while other domestic companies attract 50 per cent tax. I propose to do away with the distinction which now exists between the tax rates for widely held and closely held domestic companies and lower both rates to a single rate of 40 per cent.

99. All domestic companies having income exceeding Rs.75,000 are liable to pay surcharge at the rate of 15 per cent. Much as I would like to eliminate this surcharge, revenue constraints compel me to continue this levy for the present. The tax on companies incorporated abroad, but earning income in India, is 65 per cent at present. In line with the general reduction in corporate tax rates, this rate is being reduced to 55 per cent.

100.One of the consequences of our economic policies is the need to assist Indian companies to re-structure themselves to improve their competitive position in the market. This may call for divestment of part of the business assets or realisation of potential value from dormant assets, both of which will entail long-term capital gains tax. This acts as a deterrent to re-structuring. The present rate of such long-term capital gains tax on domestic companies is 40 per cent, whereas long-term capital gains of individuals are taxed at only 20 per cent. I, therefore, propose to lower the rate of capital gains tax on domestic companies to 30 per cent.

101.I also propose that, just like shares, even units of Unit Trust of India and other approved Mutual Funds, if held for more than 12 months, will be treated as long-term capital assets, with consequential benefits; the required holding period for such units at present is 36 months. This will bring some welcome relief to investors in units who generally belong to lower middle or middle classes.

102.The rates of taxation of investment income (i.e. dividend and interest income) of non-residents vary with the tax status of the recipient. I propose to rationalise the scheme of such taxation by having a uniform rate of 20 per cent. on such income in the hands of all non-resident companies and non-resident individuals (be they Indians or foreign nationals).

103.Representations have been received from Non-Resident Indians that they should not lose their Non-Resident status even if they visit India and stay for more than 149 days. I propose to raise this period of stay to 181 days.

104.Two years ago I introduced a special tax rebate for senior citizens (i.e., those aged 65 and above) at 10 per cent of the tax due if their income was below Rs. 50,000. Last year I increased the tax rebate to 20 per cent and also increased the income limit to Rs. 75,000. I now propose to raise the tax rebate admissible to them from 20 per cent of the tax due to 40 per cent and make the benefit available to senior citizens having income upto Rs. 1 lakh.

105.In 1992, we had decided to club the income arising to a minor child with that of the parent. This causes undue hardship in cases involving handicapped children and their parents. In order that the post-tax income of a child who is physically handicapped is not reduced, I propose to exempt the incomes of such handicapped children from the provisions of clubbing, both under the Income-tax and Wealth-tax Acts.

106.For enabling self-employed people to contribute to a pension fund to provide for security in their old age, the Unit Trust of India is going to set up a fund. I propose to include contributions to such a pension fund among the amounts which qualify for tax rebate under Section 88 of the Income-tax Act.

107.Investment in the development of human resources is an essential pre-requisite for growth and progress. Several students take loans for their studies. As a means of helping students from poorer families, who take loans from financial institutions, I propose to allow a deduction from income of Rs.25,000 per year on account of repayments of principal and payment of interest up to a cumulative total of Rs. 2 lakhs. This tax concession will be available to students who undertake graduate or post-graduate studies in Engineering, Medicine or Management, or post-graduate studies in pure sciences, applied sciences, Mathematics or Statistics.

108.Encouragement of science and technology is essential for promotion of growth. At present, when an assessee makes a contribution to a National Laboratory under the aegis of Indian Council of Agricultural Research, Indian Council of Medical Research or Council of Scientific and Industrial Research, he or she gets a weighted deduction of 125 per cent of the contribution. I propose to extend this benefit to all Universities, deemed Universities, Indian Institutes of Technology and scientific laboratories under the aegis of the Defence Research and Development Organization, the Department of Electronics, the Department of Bio-technology and the Department of Atomic Energy.

109.Several Universities and Co-operative Societies have made representations that the tax exemption under section 10(10C) for approved Voluntary Retirement Schemes should be extended to their employees. I propose to accept their representations.

110.A statement has already been made in the last session of Parliament, signifying Government's intention to exempt the incomes of Government Corporations established for the welfare of the backward classes. I propose to make legislative amendments for carrying out this commitment.

111.The system of community of property (COMMUNIAO DOS BENS) is peculiar to the people living in Goa, Daman, Diu, Dadra and Nagar Haveli. Recently, certain judicial decisions have been handed down according to which business income of a Goanese family becomes taxable entirely in the hands of a single entity. The decisions affect the time-honoured method of dividing such income equally and assessing such income separately in the hands of the husband and wife. This I understand has given rise to unnecessary tensions and anxiety amongst the Goan couples. To set at rest all controversies in this area, I propose to make suitable amendments in the Income-tax Act to ensure that, excepting for salaries, any other income arising to the citizens governed by the system of community of property in Goa will be divided equally and assessed separately in the hands of the husband and the wife.

112.We have, in the last few years, liberalised the taxation of perquisites in the form of medical expenditure in the case of employees. I propose extending the scope of the benefit by including reimbursement of bills paid by employees to recognised private hospitals.

113.In order to give relief to those living in their own houses and as an incentive for house construction, I propose to raise the deduction on account of interest on borrowed capital for house construction from Rs.5,000 to Rs.10,000 for purposes of income tax.

114.We have been implementing a simple presumptive scheme of taxation for the assessees in the unorganised sector for the past two years. The scheme was to have ended with this year. I propose to continue with the scheme. My hope is that more people will avail of this very simple scheme and come forward readily to contribute their mite to the national tax effort without any fear or inhibition.

115.In addition, I am introducing a new estimated income scheme for contractors with a turnover of upto Rs.40 lakhs and for truck-owners who own upto ten trucks. In the case of contractors, the net profit will be estimated at 8 per cent. of the gross receipts. In the case of truck owners, the income will be estimated at Rs. 24,000 per truck per year for Light Commercial Vehicles and Medium Motor Vehicles, and Rs. 30,000 per truck per year for Heavy Transport Motor Vehicles. In both these cases, no further deduction on account of depreciation or interest or other expenses will be allowed. In both cases, the scheme is optional. This scheme is based on the recommendation of the Chelliah Committee on Tax Reforms. The scheme will be simple and free of irritants, and I expect an enthusiastic response.

116.Last year, I announced a five-year tax holiday to new industrial undertakings commencing production in States specified in the Eighth Schedule to the Income-tax Act. There have been repeated and widespread demands that the benefit should be extended to backward districts in other States. I had announced the setting up of a Study Group to go into this question. The Group's report has been received and is under consideration. As a stimulus to new investment in backward districts in other States of the country, I propose to extend this concession to such districts which are backward according to certain guidelines which will be prescribed.

117.Government has already announced its intention of allowing the deduction in respect of profits of new industrial undertakings engaged in the manufacture of items listed in the Eleventh Schedule of the Income-tax Act to large-scale units also, provided such units are set up in the backward States enumerated in the Eighth Schedule. I propose to give legislative shape to this intention.

118.In order to continue to give encouragement to the export of computer software, I propose extending the exemption for such export profits for one more year.

119.We have an ambitious programme of attracting tourists to this country. It has been strongly urged that the present rate of tax on expenditure incurred in hotels discourages tourism. I, therefore, propose to reduce the rate of expenditure tax from 20 per cent. to 10 per cent.. I am doing so on the expectation that the State Governments too will follow suit and reduce their taxation on hotels in order to encourage tourism within the country and attract more foreign tourists to our land.

120.Pollution control is of vital importance to all of us. I, therefore, propose to include pollution control among the eligible projects for concession under section 35AC of the Income-tax Act, so that a person who makes a contribution to such a project can claim 100 per cent of such contribution as a tax deduction.

121.The exemption limit for gift-tax is Rs.30,000 and an additional exemption of Rs.30,000 is available for gifts to dependant relatives on the occasion of marriage. Marriages are joyous occasions of family re-union, and honest tax-paying citizens have a right to be free from tax considerations as far as possible on such auspicious occasions. I, therefore, propose to raise the exemption for such gifts on the occasion of marriage of a dependant relative from Rs.30,000 to Rs.1,00,000.

122.As conventionally estimated, the proposed changes in custom duties will result in a revenue loss of Rs. 2,981 crores and a revenue gain of Rs. 699 crores. On the Excise side, the revenue gain is anticipated at Rs. 2,106 crores and reliefs will amount to Rs. 2,000 crores. The effect of changes in Direct taxes will result in a loss of Rs. 1,075 crores in the personal Income-tax collections and Rs. 1,355 crores in Corporation tax. The estimated loss on Expenditure-tax is Rs. 75 crores. Taking into account an estimated gain of Rs. 600 crores on account of taxes on services, the total net loss on account of tax measures by conventional methods of calculation amounts to Rs. 4,081 crores. The loss to the States on account of reliefs in personal Income-tax is Rs. 625 crores and the gains on the Excise duty Rs. 148 crores. On the basis of these calculations, the Centre will suffer a net loss of Rs. 3604 crores.

123.Normally, a revenue loss of this magnitude at a time when the fiscal system is under pressure would require levy of additional taxes or an increase in existing rates. I have not followed this course of action for several reasons. The revenue loss calculations do not give any credit for simplification and rationalisation of the tax structure which will help revenue collections. Fiscal experts are near unanimous that there is considerable evasion of taxes in our system and that it is possible to reduce tax rates and yet mobilise additional revenue by improving tax administration and compliance. The simplification in the indirect tax structure that is now being introduced, will reduce the scope for discretion, disputes and litigation, all of which are a source of tax evasion. The shift to ad-valorem excise duties will also add to buoyancy. I also propose to make a major effort at improving tax administration. Tax laws are going to be administered fairly and firmly. Computerisation, which has already begun in both Departments, is expected to further improve tax administration. I also hope that tax payers who have long argued for moderation in the rates of taxes and held out assurances that this would improve compliance, will now live up to their side of the bargain. They have, in the long run, the most to gain from the success of this experiment.

124.Economic life everywhere is characterised by great uncertainty. There is always the possibility that things may not work out the way I have assumed. Although one cannot be dogmatic in these matters, my considered view is that the risks involved in the course of action I have proposed, do not cross the limits of prudence. The consequence of postponing the tax reform, or of imposing additional taxes to offset the revenue loss as conventionally calculated, would be wholly unproductive in a situation where our economy is characterised by sizeable unutilized industrial capacity, record food stocks and comfortable foreign exchange reserves. Any such course could give a setback to the economic recovery which our country needs, and which is now on the horizon.

125.For these reasons, I do not propose to assume any revenue loss as a result of the Budget proposals. The Budget deficit will therefore remain at Rs. 6,000 crores and the fiscal deficit at Rs. 54,915 crores. At this level, the fiscal deficit will be around 6 per cent. of GDP. This is higher than I would like to see, but as I have said, all tax reforms involve some risks.

126.This Budget is being presented at a critical time for the economy. There are moments in history which call for determined and decisive action. The consequences of inaction or ill-designed responses can be horrendous and are felt for decades to come. June, 1991 was such a moment. Thanks to the magnificent leadership provided by the Prime Minister Shri P.V. Narasimha Rao, we have been successful in reversing the adverse tide in our fortunes. However, the task of national reconstruction is by no means over. It is by its very nature a task which should occupy us for the rest of the decade. But we pursue this task today from a stronger position. The economy has been restored to health and shows all the potential for rapid growth in the years ahead. Our agricultural sector is strong and well placed to respond to the new policies. Our industrial sector, both, private and public, has begun the difficult process of restructuring to face increasingly competitive market conditions. The climate for investment - both domestic and foreign - has vastly improved. The tax structure now proposed goes a long way towards the kind of modern tax system and moderate tax rates and an emphasis on compliance, which is the hallmark of all successful countries. I am confident that it will provide a strong stimulus for new investments, economic revival and international competitiveness which is what the economy needs today. The medium term objectives set out in the report of the Tax Reform Committee are now clearly within our reach.

127.Mr. Speaker, Sir, this Budget is inspired by a firm conviction that India has all the material and human resources to be a front-ranking nation of the world. We are on the threshold of a new century, indeed a new millennium. There are tremendous opportunities, provided we have the wisdom and foresight to seize them. There are also immense dangers if we falter or appear indecisive. Sir, this then is a time for hard work, for recapturing the high noon of idealism which inspired our freedom struggle, for a firm determination to hold aloft, undimmed and untarnished, the bright torch of India which, as Jawaharlal Nehru was fond of saying, embodies her great and eternal spirit so that its light reaches every home and rekindles hope, faith and courage, and pride in being an Indian. Let us strive tirelessly, as the great poet Rabindranath Tagore said in his prayer, to build an India where "the clear stream of reason has not lost its way into the dreary desert sand of dead habit". May we be worthy of this noble task and of this ancient and sacred land of India.

128.Sir, I commend the Budget to this august House.

[28th February, 1994]

Budget 1995-96

Speech of

Shri Manmohan Singh
Minister of Finance

15th March, 1995

PART A

Sir,

I rise to present the Budget for 1995-96.

2. Four years have passed since our Government, under the leadership of Prime Minister Shri P.V. Narasimha Rao, took office in the midst of an unprecedented economic crisis. Our immediate task was to save the nation from a relentless slide into the abyss of falling production, soaring inflation and deepening poverty. We dealt swiftly with the immediate crisis and we also worked towards a broader objective of shifting the economy on to a path of rapid, employment-generating growth. Our aim was to raise India to her rightful place in the comity of nations.

3. Sometimes, in the heat of political debate, we lose sight of what has already been achieved. Let me take a few minutes to outline how far we have come since those grim days of 1991:

- The growth of our economy had fallen to less than one per cent in 1991-92. We brought the economy back to a growth of 4.3 per cent per year in the two years thereafter, and growth has accelerated further to 5.3 per cent in 1994-95. Few countries can claim as quick and smooth a recovery from as deep an economic crisis.
- Industrial growth had collapsed to about half of one per cent in 1991-92. Today, Indian industry is experiencing a vibrant, broad-based recovery with industrial growth of 8.7 per cent in April-November, 1994. The manufacturing sector is growing even faster at 9.2 per cent and the capital goods sector is growing at 24.7 per cent. I hope that those critics who predicted that our industrial and trade reforms would hurt Indian industry will look at the reality and think again.
- There are signs of a strong revival in domestic industrial investment in 1994-95 as Indian industry modernises and upgrades technology, and improves competitiveness. Foreign direct investment is also responding

well to the new policies, with large investments flowing into key infrastructure sectors such as Power and Telecommunications.

- Foodgrain production had fallen to 168 million tonnes in 1991-92. This year, it will be an all-time record of 185 million tonnes. Our farmers have clearly benefited from the policy of offering remunerative prices and have returned a strong production performance.
- Public stocks of foodgrain, which provide an invaluable insurance against bad weather and other contingencies, had declined to 14.7 million tonnes three years ago. They have been rebuilt to a record level of 31 million tonnes, as on January 1, 1995.
- Growth has created new jobs for our people. In 1991-92, total employment grew by only about 3 million. In each of the two years thereafter, employment increased twice as fast, with about 6 million new jobs added each year. The increase is expected to be even higher in 1994-95. The drawing room Cassandras, who predicted massive unemployment as a consequence of the reforms, have been conclusively proved wrong.
- The inability to manage our external payments was the immediate cause of our collapse in 1991. I am sure, Honourable Members are aware of the remarkable change that has taken place in this area. The dollar value of exports fell by 1.5 per cent in 1991-92. In 1994-95 our exports have grown by over 17 per cent in the first 10 months. This follows a 20 per cent increase in 1993-94. Imports have also grown in line with the revival of the economy but the balance of payments situation is comfortable.
- The fears that were voiced in some quarters that our trade policy would generate a disruptive flood of imports and weaken the economy have been shown to be completely unfounded. Liberalisation and openness have actually increased our self-reliance. Exports now finance over 90 per cent of imports, compared to only about 60 per cent in the latter half of the eighties. The external deficit on current account was over 3 per cent of GDP in 1990-91. It is expected to be less than 1/2 per cent in 1994-95.
- At the time of the crisis, our external debt was rising at the rate of 8 billion dollars a year. In 1993-94, the increase in external debt was reduced to less than one billion dollars. In the first half of 1994-95, our external debt stock actually declined by almost 300 million dollars.
- Our foreign currency reserves had fallen to barely one billion dollars in June 1991. On March 10, 1995 they stood at over 20 billion dollars.

· A key element of our strategy was to give top priority to strengthening anti-poverty programmes, once the initial crisis was overcome. We have fulfilled this promise. Plan expenditure on employment and anti-poverty programmes in the Central Sector has been increased very sharply in the last two budgets. The allocation for Rural Development has been more than doubled from Rs.3100 crore in 1992-93 (BE) to over Rs.7000 crore in 1994-95 (BE). Over the same period the allocation for Elementary Education was increased by 84 per cent, for Adult Education by 78 per cent and for Health by 91 per cent.

4. These indicators testify to a remarkable turnaround, in a relatively short time. We inherited an economy near collapse four years ago. We have transformed

it into an economy showing strong growth in agricultural and industrial output, a strong revival of domestic investment, a steady increase in foreign direct investment, renewed growth of employment and a comfortable foreign exchange position. This is the result of the hard work of our farmers and industrial workers, our managers and exporters, combined with the far sighted economic policies implemented by the government under the leadership of Prime Minister Shri P.V.Narasimha Rao. What is most encouraging is the emergence of a broad national consensus in support of reforms, a consensus which vindicates our strategy of moving forward steadily and surely on the path of reform.

5. We have come a long way, but the journey is far from over. We need to redouble our efforts in several areas to consolidate our gains, and push the economy to even better performance. This is both feasible and also necessary to achieve our goals. Reforms in the areas of taxation, trade and industrial policies and the financial sector have yielded good results. They need to be completed as planned, so as to enhance the efficiency and competitiveness of our economy. Barriers to further expansion of agriculture have to be identified and lifted. The public sector has to be revamped. Industrial relations have to provide for greater flexibility in deployment of labour. Delivery systems for social services have to be modernised, plugging loopholes and promoting cost effectiveness. Capital market reforms have to be widened and deepened to strengthen investor protection. Insurance sector reforms have to be pursued with the aim of greatly widening access to insurance services and promoting competitive and efficient customer-oriented services. We must and will push ahead in all these areas.

6. There are also some weak spots, which have surfaced and need to be addressed urgently. After the initial successes in fiscal consolidation, further progress has proved much more difficult. The fiscal deficit increased sharply in 1993-94 and the pressure on the deficit has continued in 1994-95. These developments must be countered through determined action. If we try to fund every project and programme irrespective of the revenues available, we only generate high inflation, high interest rates which choke off investment, and a proliferation of under-funded, incomplete projects. This approach will only jeopardise our basic objective of development with social justice since it is the poor who will suffer most from the resultant inflation and slow growth of employment opportunities. We must, therefore, ensure that fiscal discipline is further improved in the years ahead.

7. Inflation has surfaced again as a serious problem. We had succeeded in lowering the rate of inflation from the peak of 17 per cent in 1991 to around 7 per cent in the middle of 1993, but since then inflation has accelerated again and currently exceeds 11 per cent. This acceleration has occurred because of several factors. One reason is the sharp increase in procurement prices in the previous three years. Another factor is the shortfall in production in critical sectors such as sugar, cotton and oilseeds. The persistence of fiscal deficits at levels higher than they should be, has also contributed to inflationary pressure. Recognizing these problems, we will tackle inflation on a priority basis in the year ahead.

8. Monetary policy has already been tightened to reduce the growth of money supply. Interest rates on bank deposits have been raised to give greater encouragement to savings. Taking advantage of the improved foreign exchange

position, imports of key essential commodities, such as sugar, cotton, pulses and edible oils have been freely allowed with zero or low duties to moderate inflationary pressure. We are also taking advantage of the comfortable foodgrain stocks to undertake continuous open market sales of wheat and rice with a view to moderating price pressure in these items. The Public Distribution System (PDS) has been strengthened and supplies through the PDS are being supplemented by necessary imports of sugar and edible oils. Over the coming year, we will use all instruments available to ensure stability in prices of wheat, rice and edible oils. Tariff and trade policies will be deployed to ensure that domestic prices of industrial products do not rise unduly. The consumer movement will be strengthened and Government will be vigilant in curbing restrictive practices and hoarding. My revenue proposals, to which I will come a little later, are also designed to check inflation in commodities of mass consumption.

9. Infrastructure is another area of potential weakness. If we are to aim at economic growth of 7 to 8 per cent, which has been achieved in other countries and which alone can provide the jobs we need for our growing labour force, then we need much larger investment and much greater efficiency in key infrastructure sectors such as power, roads, ports, irrigation, railways and telecommunications. Sound financial management holds the key to progress in this area. Adequate supply of quality infrastructure depends crucially on the financial viability of these sectors, which in turn depends upon the adoption of reasonable cost recovery policies. To take the example of power, many State Governments are unable to finance new investment in power generation because of the financial weakness of the State Electricity Boards. Taking advantage of the Central Government's initiative to encourage private investment in power generation, many State Governments are actively trying to attract private sector investments into this area. But private sector investors are unwilling to invest in Power unless the State Governments and the Central Government provide guarantees and counter-guarantees to reassure the private sector producers that they will be paid for the power they generate. Such counter-guarantees are justifiable only if they are viewed as providing temporary breathing space, during which State Electricity Boards undertake necessary reforms of their institutional structure, operating practices and pricing policies. In the long run, we cannot escape the reality that the users of electricity must pay for its cost. The same criterion holds for other infrastructure sectors also. Once financial viability is assured, we can expect a renewed surge of both public sector and private sector investments in these areas.

10. I shall now deal with some issues of social equity and poverty alleviation. In my first Budget speech itself, I had emphasised that economic growth and restructuring are not ends in themselves. They are only the means to improving the lives of ordinary citizens. I wish to assure the House that this concern has been central to our strategy from the very beginning. Experience in our own country, as also from all over the world, shows that the surest antidote to poverty is rapid and broad based growth. This is precisely what our economic reforms seek to achieve. We also recognise that the fruits of growth will take time to reach some of the poorest and weakest sections of our society. To ensure that they too derive benefit in the short run, we have given the highest priority to strengthening programmes of rural development, employment generation, primary education, primary health and other key social sector programmes. These programmes, coupled with

accelerating economic growth over the last three years, are beginning to have desirable effects on employment and poverty. I have already mentioned that total employment is expanding much faster than three years ago. Real wages of agricultural labourers had declined in 1991-92 during the crisis. They had increased above pre-crisis levels by 1993-94. Available information on vital statistics, like the crude death rate and the infant mortality rate, also indicates a clear recovery in general living standards after 1991-92.

11. The message is clear: the task of lifting the age-old burden of poverty in our society is daunting, but we are on the right track. We must persevere with our two-track strategy of accelerating growth, investment and modernisation on the one track, and strengthening anti-poverty programmes on the other. The Central Plan allocations and the tax proposals in this Budget are designed to advance both elements of this strategy. Before coming to these proposals, I would like to outline some new initiatives aimed at strengthening the income-earning opportunities for the weaker segments of our society.

12. Inadequacy of public investment in agriculture is today a matter of general concern. This is an area which is the responsibility of the States, but many States have neglected investment in infrastructure for agriculture. There are many rural infrastructure projects, which have been started but are lying incomplete for want of resources. They represent a major loss of potential income and employment to the rural population. To encourage quicker completion of projects in rural infrastructure, I propose to establish a new Rural Infrastructural Development Fund within the National Bank for Agriculture and Rural Development (NABARD) from April 1995. The Fund will provide loans to State Governments and State owned Corporations for completing ongoing projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. The loans will be on a project-specific basis with repayment and interest guaranteed by the concerned State Government. Priority will be assigned to projects which can be completed within the least time period. Resources for the Fund will come from commercial banks which will be required by Reserve Bank of India (RBI) to contribute an amount equivalent to a bank's shortfall in achieving the priority sector target for agricultural lending, subject to a maximum of 1.5 per cent of the bank's net credit. This is expected to create a corpus of about Rs.2,000 crore for completion of rural infrastructure projects.

13. Our Scheduled Castes and Scheduled Tribes citizens are amongst the poorest members of our rural society. In the one hundred predominantly tribal districts, NABARD will open an exclusive line of credit to Cooperatives and Regional Rural Banks for meeting the credit needs of Scheduled Tribes. Rs.400 crore will be earmarked for this purpose during 1995-96. NABARD will also earmark a further Rs.100 crore for financing Scheduled Castes and Scheduled Tribes beneficiaries identified by the Scheduled Castes and Scheduled Tribes Corporations. This amount would be available to the commercial and cooperative banks for meeting the investment needs of Scheduled Caste and Scheduled Tribe beneficiaries in both farm and non-farm activities.

14. Khadi and village industries provide crucial non-farm earning opportunities to our rural population. I propose to establish a new scheme under

which the banking system will provide Rs.1,000 crore on a consortium basis to the Khadi and Village Industries Commission (KVIC), which will lend to viable khadi and village industry units, either directly or through State level Khadi and Village Industries Boards (KVIBs). The Central and State Governments will guarantee these loans by commercial banks to KVIC and KVIBs, respectively.

15. The handloom sector employs millions of poor weavers. At present, NABARD refinancing to this sector is restricted to the flow of credit through the District and State Cooperative Banks. Henceforth, NABARD will extend refinancing to commercial banks also for extending credit to cooperative handloom institutions. Steps are also being taken to accelerate the flow of credit to the Handloom Centres and Quality Dyeing Units coming under the scheme initiated last year.

16. Our Small Scale Industries employ 14 million workers and account for 40 per cent of our total manufacturing output and 35 per cent of our exports. This dynamic sector must be strengthened and assisted to better serve the goals of growth, employment generation and self-reliance through exports. A Technology Development and Modernization Fund will be established in the Small Industries Development Bank of India (SIDBI) to provide financial assistance to quality projects aimed at strengthening the export capability of small-scale industries. The initial amount earmarked for this Fund will be Rs.200 crore. The financial assistance, which would be directly provided by SIDBI to eligible small-scale units, can take the form of either loans or equity.

17. A National Equity Fund Scheme was established in 1987, to provide equity assistance to tiny small scale units with projects of less than Rs.10 lakhs and located in places with a population not exceeding 5 lakhs (15 lakhs in the case of Hill Areas and the North Eastern Region). I propose to extend the National Equity Fund Scheme to all tiny small-scale units irrespective of their location, except for units in metropolitan areas. Furthermore, the scope of this scheme will be enlarged to cover expansion, modernization, technology upgradation and diversification. The scheme, which is managed by SIDBI, will continue to be funded by the Central Government and SIDBI on 50:50 basis.

18. Adequate availability of credit from the banking system is critical for the small scale sector. The Government, in consultation with banks, has formulated a Seven Point Action Plan for improving the flow of credit to this sector. A key feature of the Plan is the setting up of specialized bank branches to serve the needs of small scale units in 85 identified districts, each with more than 2,000 registered small scale units. The public sector banks will ensure that 100 such dedicated branches are operational before the end of 1995-96.

19. The North Eastern region of our country merits special attention. With a view to accelerating industrial development, a new North Eastern Development Bank (NEDB) is being established to finance creation, expansion and modernization of industrial enterprises and infrastructure projects in the region. The Bank will be located within the region. It will have an authorized capital of Rs.500 crore. Initial contributions to capital will be provided by All India Financial Institutions such as IDBI, ICICI and UTI, providing scope for contribution from other investors subsequently.

20. In addition to these measures for enhancing income earning opportunities for the weaker sections of our society, I am pleased to announce four far-reaching programmes for the general welfare of the poor, especially in rural areas. The first programme addresses the serious deficiency in housing facilities for the rural poor. As Honourable Members are aware, there is a major ongoing rural housing programme, the Indira Awas Yojana. About 4 lakh dwelling units are expected to be provided on a subsidized basis in 1994-95 to Scheduled Castes, Scheduled Tribes and freed bonded labourers. For 1995-96, the housing target is being more than doubled to 10 lakh units. With this initiative, we will be able to build 50 lakh rural dwelling units in the next five years. This will go a long way towards solving the critical shortage for basic shelter among rural poor.

21. The greatest hardships among the poor are often suffered by the old and the weak, most of whom are unemployable. To soften the hardship in their twilight years, a National Social Assistance Scheme has been proposed to cover the poor and needy. One component of the scheme is the provision of a national minimum old age pension of Rs.75 per month to people above 65 years of age who are below the poverty line. A second component provides lump-sum survivor benefits to poor households, on the death of the primary bread earner, of Rs.5000. The third component aims at provision of sustenance for pre-natal and post-natal maternity care to women belonging to poor households for the first two births. The scheme will eventually cover about 14 million neediest beneficiaries from households below the poverty line. Three quarters of the beneficiaries are likely to be women needing assistance on account of old age, widowhood and maternity. The Scheme, to be funded jointly by the Centre and the States, will be implemented by the States through Panchayati Raj institutions. For this purpose, I am appointing a Committee to work out the details of this Scheme.

22. The social assistance package will be complemented by a new Group Life Insurance Scheme of the LIC which will be implemented by Panchayats in rural areas. Under this scheme, life cover of Rs.5000 will be provided for a modest annual premium of around Rs.70. For poor households, the Central Government will subsidise 25 per cent of the premium with the State Government meeting an equal amount and the beneficiary contributing 50 per cent. The subsidy will be limited to one policy per poor household. For the others, there will be no subsidy on the premium. The object of the scheme is a massive promotion of social insurance and thrift in rural areas with the active involvement of Panchayats. For poor households, it will provide a second tier of partly subsidised security supplementing the survivor benefit and will also inculcate the habit of saving. The LIC will be working out the details of the scheme.

23. Schemes to provide mid-day meals for school children have a beneficial impact not only on child nutrition but also on school attendance. Some of the State Governments have been operating school mid-day meals schemes. As part of the emphasis being laid by this Government on the primary education, and taking into account the comfortable food stocks with the public sector agencies, it is appropriate that the Central Government should be willing to participate in phased expansion of these schemes. The modality of implementing this, with necessary local variations, will be worked out by a Committee to make it operational in 1995-96.

24. Taken as a whole, these new initiatives for funding agricultural infrastructure, promoting handlooms and khadi and village industries, expanding rural housing and introducing social insurance will greatly strengthen the anti-

poverty component of our strategy. In parallel, we will also continue with the economic reforms, which have already yielded excellent results.

25. The industrial, trade and tax reforms, which have created demonstrable buoyancy in industrial production, investment and exports, will be continued, with a special effort to improve implementation at the ground level. An important positive development is the upsurge of investment proposals in infrastructure sectors, such as power and telecommunications. We will ensure that the flow of investment into these critical sectors is expedited. Reforms in the capital markets are being pursued vigorously. Major amendments have been made recently in the Securities and Exchange Board of India (SEBI) Act to give SEBI powers for effective regulation of the capital markets. We propose to introduce legislation to set up Central Depositories later this year. We will continue our efforts at financial sector reforms.

26. In my speech last year, I had drawn attention to the report of the Committee on Reforms in the Insurance Sector and indicated that we would evolve a broad consensus on the future direction of reform. As a first step, I propose to establish an independent Regulatory Authority for the Insurance industry. Necessary legislation will be introduced shortly.

27. I shall now briefly go over the Revised Estimates for 1994-95.

28. The Budget Estimates for 1994-95 had placed the total expenditure at Rs.1,51,699 crore. This is now expected to go up to Rs.1,62,272 crore, an increase of Rs.10,573 crore.

29. Budget Estimates for the current year provided Rs.46,582 crore as budget support for Plan expenditure. This is being enhanced to Rs.48,761 crore to accommodate additional assistance to the State Plans and additional allocations for the MPs Local Area Scheme.

30. Non-Plan expenditure in the current year is placed at Rs.1,13,511 crore which represents an increase of Rs.8,394 crore over the Budget Estimates. Additional provision has had to be made in the Revised Estimates towards food and fertilizer subsidies. The provision for food subsidy has to be substantially increased by Rs.1,100 crore because of the time lag in the revision of issue prices of foodgrains. Fertilizer subsidy is being increased by Rs.1,166 crore from the budgeted level to cover the requirement of imports and to clear past arrears. There has been an unprecedented rise in collections from small savings schemes this year. Consequently, an additional amount of Rs.4,497 crore is being provided in the Revised Estimates as loans to States and Union Territories.

31. Gross tax revenues were estimated at Rs.87,136 crore in the Budget Estimates. I am happy to report that our tax reforms are beginning to have the expected impact and gross tax revenues are Rs.2,695 crore higher than the Budget Estimates, reaching a figure of Rs.89,831 crore in the Revised Estimates for 1994-95. This is a vindication of our strategy of tax reform, and also a tribute to the hard work and dedication of the revenue department, without whose unstinting efforts this result could not have been achieved.

32. External loans, net of repayment, are placed at Rs.3,947 crore compared to the Budget Estimates of Rs.4,279 crore.

33. Though tax collections and other non-debt receipts have been higher than budgeted, the gains have been outweighed by much larger increases in plan and non-plan expenditure. The fiscal deficit was originally budgeted at Rs.54,915 crore or 6 per cent of GDP. The fiscal deficit in the Revised Estimates comes to Rs.61,035 crore which is about 6.7 per cent of GDP. However, nearly three quarters of this deterioration is due to the extraordinary rise in small saving collections, 75 per cent of which are passed on to the States. Thus the bulk of the deterioration in the fiscal deficit is not on account of increased expenditure of the Central Government, but only a reflection of larger small savings as compared to the Budget Estimates, which are on lent to the States. If this element is excluded, the Centre's fiscal deficit would be only 6. 2 per cent of GDP compared to the Budget target of 6 per cent.

34. The Tenth Finance Commission (TFC) submitted its Report covering the five year period of 1995-2000, on November 26, 1994. The Report recommends a substantial increase in transfers to the States. Despite the severe constraint on the Centre's resources, the Government has accepted the recommendations of the Commission and these are being implemented with effect from 1995-96. The flow of funds based on Finance Commission devolution and transfers will increase by about 22 per cent, from Rs.28,832 crore in 1994-95 to Rs.35,055 crore in 1995-96. We expect the States to use the additional resources for the purposes for which they are released and ensure that the fruits of the schemes reach the intended beneficiaries.

35. I now turn to the Budget Estimates for 1995-96. The total expenditure is estimated at Rs.1,72,151 crore. The total budgetary support from the Central Government's budget to the Central and the State Plans is being placed at Rs.48,500 crore in 1995-96, which represents an increase of Rs.1,918 crore over the level in Budget Estimates 1994-95.

36. The total outlay of the Central Plan 1995-96 has been increased to Rs.78,849 crore from Rs.70,141 crore in the Budget Estimates 1994-95. The budgetary support for the Central Plan 1995-96 has been increased to Rs.28,994 crore from Rs.27,278 crore in the Budget Estimates 1994-95. The balance will be met by the internal and extra budgetary resources of the Central Public Sector Enterprises to the extent of 63 per cent, as against 61 per cent in Budget Estimates 1994-95.

37. I am providing Rs.19,506 crore as Central Plan assistance to States and Union Territories in the Budget Estimates 1995-96 compared to Rs.19,304 crore in Budget Estimates 1994-95. It is relevant to note that the plan transfer to States and UTs for 1994-95 include Rs.2,680 crore as part of the Ninth Finance Commission decisions. Tenth Finance Commission has not suggested any transfer on Plan Account. Thus the discretionary plan transfer by the Centre to States and UT goes up from Rs.16,624 crore in 1994-95 to Rs.19,506 crore in 1995-96, yielding an increase of over 17%. This amount has to be viewed in the background of substantial increase in transfers to the States as a result of the recommendations of the Tenth Finance Commission.

38. In line with our strategy of giving priority to programmes which directly benefit the poor, budgetary support to the Central Plan is being concentrated on Rural Development, Employment and Poverty-alleviation programmes and human resource development sectors. As Honourable Members are aware, the directly targeted Rural Development programmes for eradicating rural poverty have received

special emphasis and enhanced outlays during the reform process. In the last budget, the outlay for the Department of Rural Development was raised to Rs.7,010 crore, more than double the amount of Rs.3,100 crore budgeted two years earlier in 1992-93. For 1995-96, this allocation is being further increased to Rs. 7,700 crore. With this, we will be well on the way to meeting the Eighth Five Year Plan target of Rs.30,000 crore of Central Plan outlay for Rural Development. It is estimated that the Rural Employment programmes under the Department of Rural Development generated about 800 million mandays of employment in 1991-92. In 1995-96, these programmes are estimated to generate 1290 million mandays of employment.

39. The Annual Plan of 1995-96 will continue to lay stress on improving productivity in the agricultural sector and diversifying the pattern of agriculture into higher value generating farm schemes like horticulture. Revitalising the cooperatives for providing credit inputs and extension support, marketing and processing would be another thrust area. The flow of agricultural credit through cooperatives is projected at Rs.14,000 crore in 1995-96, as compared to an estimate of about Rs.12,000 crore in 1994-95. Assistance will be given to 220 cooperative societies for women and 330 cooperative societies for weaker sections. It is expected that over 38,000 hectares would be brought under drip irrigation. Integrated pest management, which is eco-friendly, will be extended and 1500 training-cum-demonstrations will be organised to train over 50,000 farmers. 40,000 hectares are expected to be covered under intensive fish farming.

40. The spread of educational opportunities is essential for social and economic development. Despite severe budgetary constraints, the Plan Outlay for Education in 1995-96 is being increased from Rs.1,541 crore in 1994-95 to Rs.1,825 crore in 1995-96. Elementary Education is particularly important, especially for improving the position of girls and women in our society. The outlay for Elementary Education is being increased substantially by 24.5 per cent to Rs.651 crore. Under Operation Black Board, primary schools with enrolment of more than 100 children are being provided a third teacher. The allocation for Operation Black Board is being increased by 30 per cent for 1995-96. The allocation for post-matric scholarships for Scheduled Castes and Scheduled Tribes has been increased from Rs.105 crore in 1994-95 to Rs.145 crore in 1995-96. This will help additional coverage of deserving students. To assist the State Governments, Government of India is passing on all the external assistance received for Primary Education as grants to State Governments, irrespective of the terms on which the assistance is received by the Central Government.

41. The combined Plan Outlay for the Departments of Health and Family Welfare is being increased to Rs.2,251 crore in 1995-96. The allocation for the National Malaria Eradication Programme for 1995-96 is being increased by 32 per cent to Rs.139 crore, so that coverage can be extended to 163 million people with top priority being accorded to tribal areas and North Eastern States where the problem of malaria has been endemic. Rs.80 crore is being allocated in 1995-96 for the Leprosy Control Programme which aims to eliminate transmission of this disease by the year 2000. An allocation of Rs.726 crore is proposed for Family Welfare Services directly meant for rural areas, including Rs.160 crore for maintenance of 5435 Rural Family Welfare Centres and Rs.190 crore for the maintenance of 9577 Rural Sub-Centres.

42. Total non-Plan expenditure in 1995-96 is estimated to be Rs.1,23,651 crore. The outlay for Defence has been increased to Rs.25,500 crore, keeping in mind national security imperatives. An amount of Rs.5,400 crore is being earmarked for fertiliser subsidy in 1995-96. In addition, Rs.500 crore has been earmarked for cheaper supply of phosphatic and potassium fertilisers to farmers, thus raising the total effective fertiliser subsidy to Rs.5,900 crore. Food subsidy receives an allocation of Rs.5,250 crore.

43. Turning to revenue receipts, gross tax revenues at the existing rates of taxation, are estimated at Rs.1,03,762 crore. The payment of share of taxes to States is placed at Rs.29,388 crore. The net revenue receipts to the Centre, including non-tax revenues are estimated to increase from Rs.86,084 crore in 1994-95, to Rs.1,00,787 crore in 1995-96.

44. In the area of capital receipts, traditional market borrowings are put at Rs.3,700 crore. Other medium and long term loans are estimated at Rs.19,000 crore and short term loans at Rs.4,387 crore. Net external assistance is estimated at Rs.4,456 crore. As in previous years, the Government intends to continue the process of disinvestment of the equity of public sector enterprises. The Budget Estimates provide for receipts from disinvestment of Rs.7,000 crore, a significant increase from the figure of Rs.5,237 crore in the Revised Estimates for 1994-95.

45. Taking into account other changes in receipts and expenditure, total receipts at existing rates of taxation are estimated at Rs.1,67,151 crore, while total expenditure is estimated at Rs.1,72,151 crore. This results in a budget deficit of Rs.5,000 crore. The fiscal deficit emerging from these estimates for 1995-96 will be Rs.57,634 crore, which will be about 5.5 per cent of GDP. I would have liked to do better, but on balance I feel that a fiscal deficit of this order can be absorbed, if the existing growth momentum is maintained.

PART B

46. I now turn to my tax proposals for 1995-96.

47. Over the past three years, we have made a number of structural changes in our tax laws covering both direct and indirect taxes. Unlike earlier isolated attempts to modify the tax system, these changes were part of a medium term programme of tax reform guided by certain general principles that have gained wide acceptability. We wanted to build a structure which is simple, relies on moderate tax rates but with a wider base and better enforcement, serves the objectives of equity and provides the incentives and signals consistent with developing an internationally competitive, dynamic economy.

48. Direct taxation is the most equitable form of raising revenues, but our experience in the earlier years of high tax rates showed that high rates did not lead to high collections. I am happy to report that our decision to reduce rates and thereby encourage compliance has yielded good results. Personal income and corporation taxes, taken together, are expected to increase by more than 25 per cent in 1994-95. The share of direct taxes in GDP has increased from 2.1 per cent in 1990-91 to 2.8 per cent in 1994-95.

49. In the area of customs duty our objective was to reduce the high rates

of import duty gradually, so as to lower costs of production and improve competitiveness of user industries while allowing domestic producers facing competition from imported goods reasonable time to adjust. The strong growth of Indian industry in 1994-95, to which I have referred earlier, demonstrates conclusively that customs duty reforms have succeeded in imparting the necessary dynamism to industrial production.

50. In the area of excise duties, our objectives were to simplify the structure, broaden the base, reduce high rates of duty which encourage evasion, shift to ad valorem rates as far as possible and extend the coverage of MODVAT. The results are evident in the impressive growth of excise revenues in 1994-95.

51. I am reassured by these results that our basic strategy of tax reforms stands fully vindicated. Together with administrative steps being taken to improve revenue collection, I am now confident that we can create a tax structure which will ensure buoyant revenues while also stimulating growth of production and employment.

52. Mr. Speaker Sir, after this brief overview, I would like to present the details of my proposals relating to direct taxes.

53. I have received many representations from Members of Parliament, trade unions and others requesting for increase in the exemption limit for personal income-tax. Our Government has consistently responded to the genuine needs of the common man. I, therefore, propose to further raise the exemption limit for income tax from Rs 35,000 at present, to Rs. 40,000.

54. We need to strengthen incentives for savings. At present, under section 80L of the Income-tax Act, income by way of interest and dividend from certain specified financial assets is exempt from income tax to the extent of Rs.10,000 per annum. In order to provide greater fillip to domestic savings by individuals and HUFs, I propose to raise this limit to Rs.13,000. This will provide both relief and an added incentive for savers.

55. With these changes, a salaried individual will not pay any tax upto a salary level of Rs.55,000. In the case of working women, this limit is even higher at Rs. 58,000. In addition, such an individual would benefit from an additional exemption of Rs.13,000 if he or she takes full advantage of the exemption for income from savings instruments under section 80 L. The tax exempt income could therefore reach a maximum of Rs 68,000 generally and Rs 71,000 for working women. It is only beyond this level that such individuals will start paying tax and that too only at modest rates.

56. Inadequate infrastructure is a key constraint to our economic progress. In order to promote expansion of quality infrastructure, I propose to allow a five-year tax holiday for any enterprise which builds, maintains and operates infrastructure facilities in the area of highways, expressways and new bridges, airports, ports and rapid mass transport systems. This tax holiday will be available to enterprises which commence operation after 1st April,1995 . As an incentive to financial institutions to provide long-term finance for development of such infrastructure, I propose to allow a deduction of upto 40 per cent of their taxable income derived from financing of these investments, provided this amount is credited to a special reserve.

57. Under section 80-IA of the Income-tax Act, new industrial undertakings, hotels and shipping concerns commencing operation before 31st March,1995 are entitled to a deduction of 30 per cent of their income if they are companies or 25 per cent of their income if they are non-corporate entities. This incentive is available to co-operative societies for the first 12 years, and to others for the first 10 years of operation. As a special measure of support to small scale industries, I propose to extend this concession to them for five more years. Thus, new industrial undertakings in the small scale sector which commence operation before 31st March, 2000 will be eligible for this concession.

58. Exports of software have grown rapidly and represent a potentially dynamic segment of export earnings. Software exporters have, however, represented that the deduction under section 80HHE available to them is extended from year to year whereas section 80HHC for export of goods is open-ended. I propose to accede to their request to place section 80HHE on the same basis as section 80HHC.

59. Venture capital funds can be an important instrument for promoting growth of new firms and technologies which often involve high risk. The tax laws of many countries allow income of such funds to be exempt from taxation in the hands of the fund but tax it, after distribution, in the hands of the shareholders. In order to encourage the formation of venture capital funds on similar lines in India, I propose to exempt from tax, income by way of dividend and long term capital gains from equity investments made by approved venture capital funds or venture capital companies. Such venture capital funds will be required to invest only in unlisted companies engaged in manufacturing. Income will, however, be fully taxable in the hands of the shareholders.

60. On Independence Day, 1994, the Prime Minister had announced the launching of the Integrated Urban Poverty Eradication Programme. Under this programme, the Ministry of Urban Development is setting up a National Urban Poverty Eradication Fund (NUPEF). I propose to allow 100% deduction from income in respect of contributions made to this fund.

61. Under section 80-U of the Income-tax Act, a separate deduction of Rs.20,000 is allowed from the total income of handicapped persons. I have received several representations from handicapped persons and welfare organisations stating that these individuals need additional relief on account of increased cost of medicines and living aids. Recognising their needs, I propose to raise the level of deduction for handicapped persons from Rs.20,000 at present to Rs.40,000.

62. Many voluntary relief organisations have represented that the parents or guardians of children with severe disability, such as spastic children, face great mental agony having to worry about the burden of providing for the maintenance of the disabled after the death of the parents or the guardian. I see merit in this representation. I, therefore, propose to allow a new deduction of upto Rs. 20,000, from the taxable income of parents or guardians of handicapped children provided this amount is deposited in any approved scheme of LIC, UTI etc. for providing recurring or lump sum payment for the maintenance and upkeep of a handicapped dependant after the death of parents or the guardian.

63. A number of funds have been established by trade unions for the

welfare of the employees and their dependants. These funds are used to provide cash benefits in the event of superannuation, illness or death or to meet the cost of education of the employees' children. I propose to exempt the income of such funds from income tax.

64. The National Minorities Development and Finance Corporation has been set up in pursuance of the announcement made by the Prime Minister on Independence Day, 1993. The main object of the Corporation is to promote economic and developmental activities for the benefit of the members of the minority communities. I propose to exempt from income tax the income of this corporation as well as of similar corporations established by any State Government. I also propose to allow deduction in respect of donations made to these corporations, under section 80G of the Income-tax Act .

65. Upgradation of human resources is a high priority. The fundamental need is for improvement of primary and adult education in rural and semi-urban areas where facilities for such education are deficient. In addition to public funding, we have to encourage private contributions for this purpose. In 1993, I had extended the benefit of 100% deduction from taxable income for donations to universities and educational institutions of national eminence. This year, I propose to extend 100% deduction for donations to Zila Saksharta Samitis constituted in the districts for the promotion of elementary education. This measure will help to mobilise additional resources for elementary and adult education in rural and semi-urban areas and enable us to intensify our total literacy campaign.

66. All over the world, revenue administrations widen the tax base by enlarging the scope of deduction of tax at source. This brings in more persons into the tax net and assists the transition to lower rates of taxation. It also helps in the reporting of correct incomes. In many countries, income from professional and technical services is subject to deduction of tax at source. In order to prevent under-reporting of income in this sector, I propose to introduce a new provision in the Income-tax Act subjecting the sums payable by way of fees for professional or technical services to the requirement of deduction of income-tax at source at the rate of 10 per cent. There will be no deduction of tax at source where the aggregate of payments or credits during the financial year is below Rs.20,000 or where payments are made by individuals and HUFs.

67. Tax is deducted at source on payments made in excess of Rs. 10,000, to contractors under section 194C of the Income-tax Act. Legal disputes have arisen whether the TDS provisions will apply to transport contracts, advertisement contracts, broadcasting contracts, telecasting contracts and catering contracts. To avoid further litigation and check tax avoidance, I propose to provide for deduction of tax at source in these cases at the existing rate of 2 per cent for the main contract and 1 per cent for sub-contracts. Taking into account the inflation over the years, I also propose to raise the limit below which deduction at source is not necessary from Rs.10,000 at present to Rs.20,000.

68. The income from units of mutual funds or of the Unit Trust of India, though liable to income-tax, is not subject to deduction of tax at source in most cases. This has led to non-reporting or under-reporting of such income. In order to prevent misuse and ensure a uniformity of treatment with other financial instruments

I propose to provide for deduction of tax at source from such incomes at the rate of 20 per cent in the case of companies and at the rate of 15 per cent for all others including individuals and HUFs. There will be no change in the present tax treatment of non-residents or offshore funds. In the case of resident unit-holders, deduction of tax at source will be made only if the aggregate amount of income payable under each scheme during a financial year exceeds Rs.10,000. No deduction of tax at source will be required where units have been issued under an existing scheme which provides for payment of a fixed amount after a certain period of time or where post-dated cheques have already been issued towards payment of income.

69. I also propose to provide for deduction of income-tax at source from interest on time deposits with banks at the rate of 20 per cent plus surcharge in the case of domestic companies and 10 per cent in the case of individuals and other non-corporate entities. The new provision will be applicable only to the deposits made on or after 1st July, 1995. No tax shall be deducted if the amount of interest credited or paid during a financial year is Rs.10,000 or less branch-wise. Thus, persons having small deposits will not be affected by the requirement of deduction of tax. The existing facility of non-deduction of tax, where the recipient of interest has no taxable income will also be available. Interest on time deposits with primary co-operative credit societies, co-operative land mortgage banks and co-operative land development banks will be outside the scope of this provision.

70. Chapter XX C of the Income-tax Act empowers the Central Government to make pre-emptive purchase of immovable properties, beyond a prescribed limit, which, at present, is Rs.10 lakhs. A single monetary limit for all the notified cities needs to be revised in the context of local variations in real estate prices. I, therefore, propose to make a provision for prescribing different monetary limits for different cities.

71. Hon'ble Members are aware that the searches conducted by the Income Tax Department are an important means of unearthing black money. However, undisclosed incomes have to be related to the different years in which the income was earned and as such assessments are unduly delayed. In order to make the procedure more effective, I am proposing a new scheme under which undisclosed income detected as a result of search shall be assessed separately at a flat rate of 60 per cent. An appeal against the order can be filed directly before the Income-Tax Appellate Tribunal.

72. In allowing deduction for depreciation, 100 per cent deduction is allowed in the year of purchase for individual items of machinery or plant the value of which does not exceed Rs.5,000, The written down value of such assets is thereafter taken as nil. This provision was introduced as difficulties were experienced in keeping record of items of small value for purposes of allowance of depreciation. After switching over to the concept of block of assets with effect from 1st April, 1988, all the items of plant and machinery falling in a block are pooled together for allowing depreciation at the prescribed rates. There is, therefore, no justification for the continuance of this provision. I, accordingly, propose to provide that even items of machinery or plant costing less than Rs. 5,000 will form part of a 'block of assets' and depreciation will be allowed on the same at the rate specified in the Income-tax Rules.

73. I propose to amend the provisions of the Income-tax Act to provide that the taxable income may be computed only on cash or mercantile basis. It is also being provided that the taxpayers shall follow accounting standards as may be notified by the Central Government from time to time for various businesses. This provision is being made applicable from accounting year starting from 1st April,1996.

74. The calculation of capital gains on sale of bonus shares has led to several disputes. In order to simplify the position and avoid disputes, I propose that the cost of bonus shares for calculating the capital gains tax shall be taken at nil.

75. I now turn to my proposals regarding indirect taxes.

76. The thrust of my proposals is to continue the strategy of tax reform we have followed and reduce the cost of inputs to Indian producers, simplify the tax structure, minimize anomalies, promote competition and efficiency, lower prices paid by Indian consumers and thereby check the potential for inflation.

77. I shall deal first with import duties. The present peak rate of import duty of 65% is still very high compared to other developing countries, let alone industrialised nations. I propose to continue the process of phased reduction in the peak rate by lowering it to 50%.

78. The machinery and capital goods sector is a critical sector of our industry and it has responded extremely well to the new policies with a growth of 25% in April-November, 1994. I propose a package of measures which will further rationalise and simplify the import duty structure as applicable to machinery and capital goods, remove a number of anomalies and assist the industry in achieving a high rate of growth.

- At present the general import duty rate on machinery items is 25% but certain capital goods like generating sets and weighing machinery attract higher rate of duty. I am proposing to bring down the duty on these items also to 25%.
- The rate of import duty on machine tools, currently varies between 35% and 45%. I propose to unify the duty rates at 25% which is the general rate for machinery. Parts of such machine tools will also generally attract duty of 25%.
- Components of capital goods generally attract an import duty of 25% but components which contain electronic parts and components which are interchangeable with motor vehicle parts, attract higher rates. I propose to reduce the duty rate on these components to 25%.
- Quality control is a must for manufacturing industries if they have to improve the quality of their products. I am proposing to reduce the import duty on testing, quality control and other instruments from present rates varying from 40% to 60% to a uniform level of 25%. Parts of such instruments in general will also attract the same rate.

79. These proposals will unify the customs duty rates for nearly 80% of general machinery (both mechanical and electrical), machine tools, instruments

and projects at 25%. They will avoid anomalies relating to parts and components, reduce classification disputes and promote investment by reducing its cost.

80. Metals, ferrous and non-ferrous, are key inputs into capital goods and many other lines of production, many of which are undertaken by small scale producers. These items at present attract rates of duty varying from 50% to 60%. Ideally, such materials should not attract rates of duty higher than those on the capital goods. But keeping in view the need to allow domestic producers of metals a reasonable transition period, I am proposing to reduce the import duty rates on ferrous and non-ferrous metals to 40%. For unwrought non-ferrous metals like copper, zinc and lead, the import duty is proposed to be reduced to 35%. Import duty on hot rolled coils of iron and steel for re-rolling is proposed to be reduced from 40% to 30%, and that on stainless steel scrap from 30% to 20%. Import duty on sponge iron is proposed to be reduced from 30% to 20%. I also propose to reduce the import duty on a number of non-metallic minerals from 65% to 30%.

81. I am also simplifying the import duty structure on ball or roller bearings which currently attract different rates of duty depending on size, weight and description. Henceforth all ball or roller bearings will attract a uniform duty of 25% + Rs. 120/kg.The revised duty structure is likely to reduce the incentive for under-invoicing and smuggling.

82. Clothing and textiles are items of mass consumption. Yet our import duties on raw materials and inputs used to manufacture synthetic yarns, fibres and fabrics are on the high side. In view of this, and keeping in mind the continuing inflationary pressure in this sensitive area, I propose to reduce import duty on xylenes from 30% to 10% to lower the cost of manufacturing DMT/PTA. I am also proposing to reduce the import duty on DMT, PTA and MEG, being essential raw materials for the manufacture of polyester fibre and polyester filament yarn, from 60% to 35%. On caprolactum, a basic raw material for nylon, the import duty is proposed to be reduced from 60% to 45%. These changes should substantially reduce input costs to the user industries. To help ensure that the benefits are reflected in the prices of the final products, I also propose to reduce the import duty on synthetic fibres and filament yarns to 45% ad valorem.

83. I am also proposing to reduce the import duty on certain chemicals widely used in industry. On basic feed stocks like ethylene and benzene, the import duty is being reduced from 15% to 10%. On soda ash, caustic soda and linear alkyl benzene, the import duty is being reduced from 65% to 40%. On certain chemical intermediates like acrylonitrile, the import duty is being reduced from 30% to 20%. I am proposing to reduce the import duty on molasses from 65% to 10% to help the alcohol based chemical industries. The duty on LPG is also being reduced from 15% to 10%.

84. Electronics is a fast growing industry offering great promise for exports, employment and development in the small scale sector. In my last budget, I had conducted a major restructuring of duties to promote growth of this industry. As a further step in this direction, I propose to reduce the import duty on specified raw materials and piece parts from the present levels of 20% and 30% to a uniform level of 15%, on electronic components including printed circuit boards and colour monitor tubes from 40% to 25%, on populated printed circuit boards from 50%

and 65% to 35% and on computers, from 65% to 40%. I am also proposing to reduce the import duty on integrated circuits and hard disc drives to 25% which is likely to reduce the grey market in these products. Import duty on picture tubes for colour TVs is being reduced from 65% to 40%. To give a boost to the telecom optical fibre cable industry, I propose to reduce the import duty on optical fibres from 40% to 35%. I am also proposing to reduce the import duty on both systems and application software to a uniform level of 10% only. With these changes in duty structure, I expect this industry to show even more dynamism in future.

85. For promoting healthcare, last year I had simplified the import duty structure on medical equipment, exempted many types of life saving equipment from payment of duty, and abolished the certification procedure for availing of the exemption for charitable hospitals. In order to help manufacture and maintenance of medical equipment, I am extending the benefit of full exemption from import duty to all parts of exempted life saving and sight saving equipment . Some crucial spare parts of other dutiable medical equipment such as populated PCB will attract an import duty of 15%. I am also proposing to fully exempt linear accelerators, which are vital for the treatment of cancer patients. There are also proposals for reduction of import duty on a large number of drug intermediates from 50% to 40%.

86. Our printing industry needs quality paper so as to establish a foothold in the international field. With this in view, I am proposing to reduce the import duty on paper from 65% to 40%.

87. To promote exports of finished leather and make it more competitive, I propose to abolish the export duty on finished leather.

88. Agriculture is the lynchpin of our economy and employs two thirds of our labour force. In order to help agriculture and allied sectors directly, I propose reducing import duties on certain items. I am proposing to reduce the import duty on grand parent poultry stock from 30% to 20%. On certain drugs used as feed mix for poultry, the duty is being reduced from 65% to 15%. For the fishing industry, I propose to reduce the import duty on certain vaccines, prawn feed mix and preparations for prawn processing from 65% to 15%. Agriculture and allied sectors will also be helped by the general reduction in import duties on general machinery and components. I have, however, proposed an increase in import duty on malt and starch from 10% to 30%, that on silk cocoon from 30% to 40% and on oleopine resins from 10% to 20% in order to give necessary protection to these sectors.

89. I propose to raise the free baggage allowance for passengers coming to India from Rs. 4000 to Rs.6000. Beyond this limit, the duty rate now is 100% which I propose to reduce to 80%. I hope this will provide welcome relief to our people working abroad and to travellers in general. At present import of goods through a courier attracts import duty at the rate of 100% upto Rs.10,000/-and 200% thereafter. There has been a long standing demand from industry that goods imported through a courier should be charged at the relevant rate for the item being imported. I am making a provision to this effect in the Finance Bill. Pending passage of the Legislation, I am proposing that goods imported by a courier will attract a duty of 80% without any value limit.

90. I now turn to my proposals for excise duties.

91. In my earlier budgets, I had exempted from excise duty a large number of items of common consumption like processed food, dairy products, jam, jelly, butter, cheese, tea and coffee. Many other items of mass consumption like cooking oil, bicycles and their tyres, kerosene stoves, bread, spices and household utensils are also exempt from excise duty. My proposals in this budget will further reduce the burden of excise duties on articles which are widely consumed.

92. A number of articles of mass use are made of plastics. Plastics are also finding increasing use in agriculture and agro-processing. The present rate of duty on this basic material is 30%. I propose to bring down the rate of duty on plastics to 25%. On the dutiable articles made from plastics also, I propose to reduce the excise duty to 25%. However, articles of plastics which are exempt at present will continue to be so. These measures are being combined with a reduction in the import duty on bulk plastics from rates varying between 45% and 65% to a uniform rate of 40%.

93. At present, we have a uniform excise duty of 15% on all metals except aluminum. I now propose to reduce the excise duty on aluminum also from 20% to 15%.

94. In order to remove areas of dispute in classification and to rationalise the duty structure, I propose a uniform excise duty of 15% on parts of capital goods as against present rates which vary from 10% to 25%. This will avoid disputes as to whether a particular item should be considered as an article of metal or component of a machinery.

95. I am also proposing a concessional rate of excise duty of 10% on glassware produced by the labour intensive mouth blown process as against the present rate of 20%.

96. Many Honourable Members of Parliament have suggested that there are certain sectors of the industry which are both highly labour intensive and belong to the unorganised sector and that they deserve complete exemption from excise duty. Having regard to these requests, I propose to exempt the following from excise duty:-

- HDPE and polypropylene mono-filaments which are mainly used for making fishing nets and mosquito nets;
- metal containers made without the aid of power;
- non-elastic narrow woven fabrics of cotton;
- unbranded surgical bandages; and
- tarpaulin cloth made without the aid of power.

97. As part of the process of reducing higher end duty rates, I am proposing to lower excise duty:-

- on aerated water from 50% to 40%;

- on air conditioning machinery from 60% to 40%;
- on cosmetics from 50% to 40%;
- on glazed tiles from 40% to 30%.
- on perfumed antiseptic cream from 30% to 20%.

98. I am also proposing reduction in excise duty in certain areas of general consumption -

- on polymer based paints from 30% to 20%;
- on cocoa and cocoa preparations from 25% to 20%;
- on malt based food preparations from 25% to 20%;
- on asbestos fibres from 20% to 10%;
- on asbestos cement articles from 30% to 25%.
- on audio and video magnetic tapes from 30% to 20%;
- on dry cell batteries from 25% to 20%;
- on coated fabrics from 35% to 25%;
- on ceramic laboratory ware from 30% to 20%.
- on fireworks from 20% to 15%.
- on parts of motor vehicles and two-wheelers from 20% to 15%.
- on glass containers from 30% to 20%.

99. I propose to reduce the excise duty on polyester filament yarn from 69% to 57.5%. The rate is still high but revenue constraints rule out any further reduction for the present. The concurrent reduction in import duties, indicated earlier, will help ensure that the benefit of excise duty reduction is passed on to consumers.

100. The textured polyester yarn industry has complained about the burden of excise duty of 69% on the value addition in their industry. I am proposing suitable adjustment in the tariff value of textured yarn so as to reduce the total duty burden at the texturising stage from Rs. 10.35/kg to Rs.4.60/kg. On sewing thread which currently attracts excise duty at rates varying from 23% to 69%, I am proposing a uniform duty of 23%.

101. I have some proposals which are in the nature of anti-evasion measures. I am proposing an excise duty of 10% on wool tops so as to check evasion of excise duty at the woollen yarn stage. As full Modvat credit will be available, the tax will fall only on those who are evading excise duty at the yarn stage. I am also proposing a minimum excise duty of Rs. 10 per kilo on waste and scrap of fibre and yarn so as to discourage the tendency to clear good quality fibre and yarn in the guise of waste. It is also being clarified that yarn made predominantly from synthetic waste will attract the same rate of duty as yarn made from staple fibre.

102. Insulated wires and cables attract a duty of 30%. As these have wide household and industrial application, I am proposing to reduce the duty to 25%.

103. There is a persistent demand from the plastic woven bags manufacturers for extending Modvat to the users of such bags. I am now proposing that users of such plastic bags as well as jute bags be allowed full credit of excise duty paid on such bags. Cement industry is one of the major consumers of such bags. I am simultaneously proposing a modest increase in excise duty on cement from Rs.330 to Rs.350/MT for integrated cement plants and Rs. 185 to Rs. 200/MT for mini cement plants. For the mini cement plants using vertical shaft kilns, the daily clearance limit is also being raised from 200 to 300 MT per day.

104. Certain items of china and porcelain ware attract a duty of 30% which is on the high side for a product which is increasingly of common use. With a view to giving relief to the consumers, I am proposing to reduce the duty to 15%.

105. Small scale units play a significant role in the economy of the country. Currently, only units whose turnover of dutiable goods did not exceed Rs. 2 crore in the preceding financial year are eligible for the concessional rates of excise duty under the general small scale industry exemption scheme. I have received representations that the present limit of Rs. 2 crore is too low and that it acts as a disincentive to future growth. I am thus proposing to raise the eligibility limit for availing of the SSI exemption scheme to Rs. 3 crore.

106. There has been a perpetual problem with manufacturers of exempted goods as they may have to pay excise duty on waste and scrap generated during the process of manufacture. It does not seem very logical to bring these units under the excise control only for the purpose of charging duty on such waste and scrap. I am thus proposing to fully exempt waste and scrap which arise in the manufacture of exempted goods. This should help a large number of units in the small scale sector.

107. I am also proposing abolition of the system of filing of classification lists. From 1st May, 1995, the manufacturers need not file any classification list before clearing goods from the factory.

108. There have been requests from trade and industry for liberalisation and simplification of Modvat scheme. With this end in view, I am proposing the following relaxations in the Modvat Rules-

- Allowing Modvat credit for specified quality control, testing, pollution control and R&D equipment;
- Utilisation of Modvat credit for payment of duty on any goods notified under the Modvat scheme;
- Allowing Modvat credit for furnace oil and low sulphur heavy stock used for generation of power in a factory manufacturing excisable goods.

109. I am also proposing to extend Modvat for tyre yarn used in tyres by imposing a duty of 20% on the intermediate tyre cord fabrics. To make up for the revenue loss, the specific rates of duty on tyres are being raised by about 8%. Excise duty on tyres for two wheeled and three wheeled vehicles is, however, not being raised.

110. I am proposing extension of Modvat scheme to industrial fabrics. In the case of woollen fabrics also, I am proposing to extend Modvat fully, as such fabrics already attract basic excise duty and enjoy limited Modvat facilities.

111. I am also proposing to broadly align the Central Excise Tariff on textiles on the lines of the harmonised system of nomenclature. This will help reduce classification disputes.

112. Consonant with the increase in prices, I am proposing an increase in the existing specific rates of duty on cigarettes by about 7%.

113. I have also proposed certain amendments in the Finance Bill seeking to effect changes in the Customs Act, the Central Excises and Salt Act and excise and customs tariffs. These include certain consequential amendments to the customs tariff based on the amendments to the Harmonised Commodity Description and Coding System which has been adopted by our country in terms of International Convention on the Harmonised System. The amendments are merely enabling provisions and do not have significant revenue implications. In order to save the time of the House, I do not propose to recount them.

114. The increases in excise duties are expected to lead to a revenue gain of Rs. 335 crore while the reliefs will amount to Rs. 646 crore in a full year. Of the total net loss of Rs. 311 crore, the loss to the Centre will be Rs.203 crore and that to the States Rs.108 crore. On the customs side, the proposals would result in a revenue loss of Rs. 1179 crore. Applying conventional methods of estimation, the proposed changes in direct taxes are expected to lead to a revenue loss of about Rs.900 crore on account of Income tax, of which the loss to the States would be about Rs.700 crore. Total net loss to the Centre would thus be Rs. 1582 crore.

115. These methods do not take adequate account of the gains from simplification, rationalisation and improved tax compliance. Last year, the net loss from the revenue proposals on the basis of conventional estimates was placed at more than Rs. 4000 crore. However, I had predicted that because of gains from compliance and better administration our revenues would not suffer any loss. This optimism has been fully justified by performance as indicated in the Revised Estimates for 1994-95. The tax changes I have proposed in the budget are essentially a continuation of the efforts made in the previous year and I am confident that the gains from the reform will ensure that there will be no revenue loss. I am not, therefore, assuming any revenue losses from my Budget proposals. Hence the fiscal deficit will remain at 5.5% of GDP.

116. Copies of notifications giving effect to the changes in customs and excise duties will be laid on the Table of the House in due course.

117. Honourable members may recall that in my first Budget Speech, I had affirmed that no power on earth could stop an idea whose time had come. I had also stated that the emergence of India as a major economic power was such an idea. It is this vision, of a resurgent India, taking her rightful place as an economic power house in Asia, which has inspired our economic policies. Our Government has worked hard to convert this vision into a reality, and I think the House will agree with me that our efforts have met with considerable success. We have sought to mobilise the collective will of our people for development through an action programme which commits us to the twin pursuit of excellence and social justice. There is no parallel example in the world of a country of India's size and diversity seeking to bring about a massive social and economic transformation in the framework of a democratic polity and an open society committed to the rule of law and individual freedom. India's experience is, therefore, of great worldwide

significance. The world is certainly watching us with interest and expectation.

118. As I see it, India is on the threshold of unprecedented opportunities provided we have the wisdom to seize them. We have made a good beginning but there is still a vast unfinished agenda. We have to persevere in our efforts. This will call for hard work and dedication and a measure of self-discipline on the part of all sections of society. We must never forget that a higher standard of living for our people can become a reality only through an all round increase in productivity. Clearly there are no short cuts to it. We cannot simply spend our way into prosperity. Those of us in politics have a special responsibility. The pursuit of competitive politics must not be allowed to distract our people's attention from the basic task of nation building. Politics in this country must recapture the spirit of idealism and self sacrifice, which inspired our freedom struggle, and become a purposeful instrument of social change. This then is no time for rest or to fritter away our energies in partisan strife. It is a time for rededication and reaffirmation of our collective solemn resolve to work tirelessly for building a new India worthy of the dreams of the founding fathers of our Republic, an India which will enable our children and grand children to lead a life of dignity and self respect, to take pride in being Indian and to grapple effectively with the challenges of the twenty-first century.

119. Mr. Speaker, Sir, with these words I commend this Budget to this august House.

[15th March, 1995]

Budget 1997-98

Speech of

Shri P. Chidambaram

Minister of Finance

28th February, 1997

PART A

Sir,

I rise to present the Budget for the year 1997-98.

Introduction

2. The government headed by Prime Minster Shri Deve Gowda completes nine months today. When I stood before this House on July 22, 1996, this House received my proposals with a mixture of wonder, curiosity and scepticism. I was, after all, the Finance Minister of the genuine coalition government at the Centre. I was also the first Finance Minister who belonged to an avowed regional party, albeit with a national outlook.

3. Hon'ble Members will indulge me for a few minutes while I reflect on those eventful days in May 1996. One national party acknowledged that it had lost its claim to form the government. Another tried, but failed. It is in that situation that regional parties, and certain parties with a larger national presence, came together to form the United Front government. These parties-long regarded as children of a lesser God-have demonstrated that, given the opportunity, they can form a government not only at the State level but also at the Centre. Inspired by the idea off a truly cooperative federal polity, Chief Ministers have assembled, more often than ever before, at the Inter-State Council, the National Development Council and at the Special Conferences to formulate national policies. The formulations of the government by the United Front and our efforts to take decisions by a national consensus, in the fiftieth year of India's independence, have deepened and broadened Indian democracy.

4. Hon'ble Members will find that there is a strong continuity between my first Budget and the present one. The foundation of the Budget remains the Common Minimum Programme. The experience of the last eight months has demonstrated the enormous strengths of the programme. Drawing on the CMP, my first Budget articulated seven broad objectives. These objectives embraced vital elements such as growth, basic minimum services, employment, macroeconomic stability,

investment (particularly in infrastructure), human development and a viable balance of payments. I believe these objectives remain as valid today as they were eight months ago.

July 1996 Budget Promises

5. On the last occasion, I had made over forty specific promises on policies and programmes. I have carefully taken stock of the situation, and Hon'ble Members will be pleased to know that I have fulfilled all these promises, save one, to which I shall refer presently. To recall the more important ones, I am happy to state that we have

- Provided an additional sum of Rs. 2466 crore to the States for seven Basic Minimum Services;
- Funded the Rural Infrastructure Development Fund (RIDF)-II with Rs. 2500 crore;
- Expanded the list of industries eligible for automatic approval for foreign equity investment;
- Set up the Disinvestment Commission and the Tariff Commission;
- Introduced the Jeevan Suraksha and the Jan Arogya insurance schemes; and
- Launched the Accelerated Irrigation Benefit Programme.

6. The one commitment that I have been unable to keep is to set up an Expenditure Management and Reforms Commission. I failed because I wanted an A team and I was not content with a B team. Key members of the A team are in this House and in the Rajya Sabha, and they still elude me. I shall keep trying. Meanwhile, I have not let up on my resolve to keep expenditure within the Budget, and I have achieved a fair measure of success.

Current Economic Situation

7. The Economic Survey 1996-97 was laid in the Parliament a few days ago. It provided a detailed and balanced account of the state of the economy. There is indeed much to be done, but there is also much to be proud of. The outstanding feature of the economy is that the GDP has been growing during the last three years at an average rate of 7%. I salute the farmers, the workers, the entrepreneurs and the service providers who have made this possible.

8. The positive features of our economic performance in 1996-97 include:

- Continued high economic growth at 6.8%;
- A strong recovery of growth in agriculture and allied sectors to 3.7%, after a disappointing minus 0.1% in 1995-96;
- Rebound in foodgrains production to 191 million tonnes;
- Manufacturing sector growth at 10.6%; and
- A sizeable build up in our foreign currency reserves from US$ 17.0 billion to US$ 19.5 billion as on February 27, 1997.

9. I shall not be true to myself or to the country if I did not highlight the areas of weakness. Two areas of great concern are the sharp drop in domestic crude oil production and the sluggish performance of the power sector. Other matters of concern include a deceleration in the growth of exports, a rise in the rate of inflation and a volatile capital market. Government has addressed these concerns through some far-reaching initiatives in the last three months. I have also fresh proposals in this Budget.

10. Macroeconomic management involves, inevitably, striking a balance between various objectives and considerations. As Hon'ble Members are aware, in 1995-96, the growth in money supply was reduced sharply to 13.2%. Although this helped to contain inflation, it also led to high real interest rates, a widespread perception of a liquidity crunch and a slackening of investment proposals. Since July 1996, corrective action has been taken which has eased the availability of money and brought down the interest rates. The long-delayed increase in the prices of petroleum products and supply-side problems, arising mainly out of lower production and lower procurement of wheat in the last season, exerted pressure on the price level. Government has taken a number of steps to maintain price stability. Paddy production and procurement in the *Kharif* season have been satisfactory and we have adequate stocks of rice. The *Rabi* wheat crop is also very promising and steps will be taken to maximise procurement. At the same time, I would like to make it clear that, if necessary, government will not hesitate to import wheat and other essential articles to counter the pressure on prices. Maintaining price stability is high on the agenda of this government.

11. Apart from supply side management, we have to adopt prudent fiscal and monetary policies that will stabilise prices. For the year 1997-98, the government and RBI will act in concert towards a further reduction in the fiscal deficit, containment of the growth of money supply within 16% and adoption of a liberal import policy for essential commodities. Our goal is to break inflationary expectations and reduce the rate of inflation from the present level.

Poverty Alleviation Programmes

12. Our fight against poverty is not a game in populism. It is a battle at the grassroots level. It is a battle in which, I believe, all of us ought to be on the side of the poor. Those who are poor are those who do not have land or water or education or opportunity. Our programmes, therefore, revolve around the concerns of the poor. For example

- The flagship programme of the Prime Minister is the Basic Minimum Services plan. As against Rs. 2466 crore in the current year, I propose to provide Rs. 3300 crore for this programme in 1997-98. This will include Rs. 330 crore for slum development.
- The provision for the Accelerated Irrigation Benefit Programme is being enhanced from Rs. 900 crore to Rs. 1300 crore in 1997-98.
- The Ganga Kalyan Yojana is intended to support farmers to take up schemes for groundwater and surface water utilisation through a mixture of subsidy, maintenance support and credit arrangements. Rs. 200 crore

is being provided in 1997-98.

- On august 15, 1997, the Prime Minister will inaugurate the Kasturba Gandhi Shiksha Yojana, a programme to establish special schools for girl children in the districts which have particularly low literacy rate. I have placed Rs. 250 crore in the Budget for 1997-98.
- All current schemes, addressed to different target groups such as PMRY, IRDP, NRY etc., will be reoriented to provide skill-based training, entrepreneurship development and subsidy-linked bank credit to 1 million youth to empower them to start viable small business.

13. Our government believes that poverty alleviation programmes are important instruments in the fight against poverty. While maintaining the large outlays for these programmes, it is necessary to rationalise their number and make them more focussed and effective. The Planning Commission is now engaged in a comprehensive exercise and the revised portfolio of poverty alleviation programmes will be implemented with effect from April 1, 1997.

Rural Credit

14. Agriculture is the lifeblood of our economy. The CMP calls for a doubling of the flow of credit to agriculture and agro-industries within five years. In 1996-97, the first year of this government, it is estimated that credit flow to agriculture will increase from about Rs. 22,000 crore to nearly Rs. 28,600 crore-an increase of an unprecedented Rs. 6,600 crore.

15. Hon'ble Members will be glad to know that the Rural Infrastructure Development Fund (RIDF) has proved to be popular and successful. Under RIDF-I, Rs. 2,000 crore was sanctioned for 4,530 projects. By March 1997, disbursements will amount to about Rs. 1,400 crore. Under RIDF-II, 8,387 projects worth over Rs. 2,500 crore have been sanctioned. RIDF-III will be launched in 1997-98 and Rs. 2,500 crore will be provided. I urge the States to continue to make the best use of these funds.

16. The policy of recapitalising the Regional Rural Banks (RRBs) will continue next year. I am providing Rs. 270 crore for this purpose. I also intend to allow a greater role to sponsor banks in the ownership and management of RRBs.

17. NABARD is being strengthened. NABARD has been given Rs. 500 crore as advance additional share capital-Rs. 100 crore by government and Rs. 400 crore by RBI-in the current year. The share capital will be augmented by a similar allocation in 1997-98. I am also glad to announce that, as promised last year, NABARD has promoted and incorporated this month, state level agricultural development finance institutions in three States as joint ventures. More will be incorporated next year.

Controls on Agriculture

18. The CMP said that all controls on agricultural products will be reviewed and, wherever found unnecessary, will be abolished. Only some regulations are by the Central government and a beginning is being made by abolishing a few. The Rice Milling Industries (Regulation) Act, 1958 and the Ginning and Pressing Factories Act, 1925 will be repealed. Licensing, price control and requisitioning under the Cold Storage Order, 1964 will be removed. The Edible Oils and Edible Oil Seeds Storage Control Order, 1977 and the Cotton Control Order, 1986 will be invoked

only in well-defined emergency situations. Domestic futures trading would be resumed in respect of ginned and baled cotton, baled raw jute and jute goods. An international Castor Oil Futures Exchange will be set up. I urge State governments to follow this lead and abolish as many controls as possible.

Small Scale Industry

19. As Hon'ble Members are aware, government has recently enhanced the investment ceiling for plant and machinery of small scale industries (SSIs) to Rs. 3 crore and of tiny units to Rs. 25 lakhs. In order to ensure that credit is available to all segments of the now-enlarged SSI sector, the RBI is issuing instructions that out of the funds normally available to the SSI sector, 40% will be reserved for units with investment in plant and machinery between 5 lakhs, 20% for units with investment between Rs. 5 lakhs and Rs. 25 lakhs and the remaining 40% for other SSI units.

20. Government also announced recently that it will examine carefully the other recommendations of the Abid Hussain Committee on the SSI sector. With a view to reduce wastage in agricultural commodities, improve quality and hygiene and promote exports, the Advisory Committee on reservation and dereservation has recommended that 14 items, now reserved for manufacture in the SSI sector, may be dereserved. 822 items would still remain reserved for production in the SSI sector. Government has accepted these recommendations. The dereserved items include rice-milling, dal milling, poultry feed, vinegar, synthetic syrups, biscuits, ice cream, a variety of automobile parts and corrugated paper and boards. It is expected that new investment and improved technology will flow into these businesses.

Housing

21. A constraint on adding to the housing stock of the country is the Urban Land (Ceiling and Regulation) Act, 1976. It is the intention of the government to move a Bill for amending the Act in this session of the Parliament.

22. Indira Awas Yojana was launched to build houses for the poor in rural areas. Housing finance companies provide credit, but the bulk of such credit flows into the urban and semi-urban areas. There are some rural housing credit programmes but they lend meagre amounts up to Rs. 10,000. There is virtually no source of credit for the farmer who wishes to build a modest house on his freehold land or to improve or add to his old dwelling. This gap must be filled. In consultation with the National Housing Bank (NHB) and others I have worked out a plan. Loans, up to Rs. 2 lakhs, will be given for building houses on freehold land in rural areas at normal rates of interest, subject to the borrower putting in one-third of the value of the house. NHB has been requested to prepare a scheme in which other organisations will also participate. The Prime Minister will launch the scheme on August 15, 1997 and it is our goal to sanction 50,000 loans in the first year.

Employees' Provident Fund & Gratuity

23. The Central Board of trustees of the Employees' Provident Fund (EPF) has made specific proposals to make the EPF schemes more attractive. Government has also looked at the matter from the point of view of augmenting savings. I am happy to announce the following decisions:

- The rate of contribution in all industries and establishments will be increased from 8.33% to 10% for both employers and employees with effect from March 1, 1997.

- In the scheduled industries where the rate of contribution is now 10%, the Act will be amended to make the rate 12% for both employers and employees.
- The requirement of keeping 20% of the incremental PF amounts in the Special Deposit Scheme (SDS) will now be withdrawn with effect from March 1, 1997 and the Board of Trustees will be free to invest this portion of the funds in any other kinds of permitted securities.

24. In 1995, the Central government enhanced the ceiling on the amount of gratuity payable from Rs. 1 lakh to Rs. 2.5 lakh for Central government employees. I am now pleased to announce that the benefit will be extended to all employees covered under the Payment of Gratuity Act, 1972, which will be amended for this purpose.

Public Sector Autonomy

25. The CMP promised that “the United Front government will identify public sector companies that have comparative advantages and will support them in their drive to become global giants.” To begin with, nine well-performing public sector enterprises, the *Navratnas*, have been identified. These are IOC, ONGC, HPCL, BPCL, IPCL, VSNL, BHEL, SAIL and NTPC. The Industry Minister will shortly unveil a package of measures that will help them achieve this objective. He will also make a full statement on managerial and commercial autonomy to all PSUs.

26. In the meanwhile, government has decided to delegate more monetary powers to the Boards of profit-making enterprises. For these PSUs, the existing limits for capital expenditure that can be incurred without the prior approval of the government is being doubled straight-away, and where the gross block is over Rs. 500 crore, the limit will be Rs. 100 crore.

Disinvestment

27. The Disinvestment Commission was constituted in August, 1996 and 40 PSUs were referred to the Commission for advice. The Commission has submitted its first report. It has made specific recommendations in respect of three companies. We intend to proceed with the disinvestment in these companies along the lines suggested by the Commission. While the Commission will make further reports every month, a second batch of PSUs has been referred to the Commission. As the Commission has observed “The essence of a long-term disinvestment strategy should be not only to enhance budgetary receipts, but also minimise budgetary support towards unprofitable units while ensuring their long-term viability and sustainable levels of employment in them.” Government agrees with this view and I appeal to Hon’ble Members to take a positive view of disinvestment.

Oil and Gas

The country’s demand for petroleum products is growing at over 8% per annum, which is faster than the growth of domestic supply. We cannot choke this growth. At the same time, we must reduce our dependence on imported petroleum products. There is no real alternative to increasing the supply. Just 6 of the 26 basins that have potential for oil and gas in India have been explored, and that too only partially. The Minister for State for Petroleum and Natural Gas will be making a detailed statement on the new exploration licensing policy (NELP) shortly. The highlights of the policy are the following:

- Companies, including ONGC and OIL, will be paid the international price of oil for new discoveries made under the NELP;
- Royalty payments will be fixed on an ad valorem basis instead of the present system of specific rates;
- Royalty payments for exploration in deep waters will be charged at half the rate for offshore areas for the first seven years after commencement of commercial production;
- Freedom for marketing crude oil and gas in the domestic market;
- Tax holiday for seven years after commencement of commercial production for blocks in the North-East region;
- ONGC and OIL will get the same duty concessions on import of capital goods under the NELP as private production sharing contracts;
- Cess levied under the Oil Industry Development Act, 1974 will be abolished for the new exploration blocks; and
- A separate petroleum tax code will be put in place as in other countries to facilitate new investments.

It is my fervent hoe that Indian and foreign companies will respond positively to this package of measures.

29. In order to ensure that adequate domestic refining capacity is created, I propose to allow refineries to import capital goods during the Ninth Plan period at a concessional duty on par with the fertiliser sector. Domestic capital goods suppliers will also get deemed export status.

Infrastructure

30. The Infrastructure Development Finance Company has been incorporated. Section 80IA of the Income Tax Act grants five year tax holiday for certain infrastructure projects. Last month, I announced that telecommunications will qualify as infrastructure. I now propose to add Oil Exploration and Industrial Parks to this category.

31. I am also glad to announce that the vexed question of assignability of telecom licenses has been resolved and that tripartite agreements are proposed to be entered into among the Department of Telecommunications, the licensee and the lenders.

32. As Commerce Minister, I proposed in the Exim Policy that supply of goods to oil, gas and power projects, if the supplies are made under the procedure of international competitive bidding, should be given the benefits of “deemed exports’. As Finance Minister, I am glad to accept this wholesome proposal. Details are being notified separately.

33. The National Highway Authority of India (NHAI) is now geared to implement the new policy on roads and highways. I propose to enhance budget support for NHAI to Rs. 500 crore which is a significant step up from Rs. 200 crore provided in the current year.

Foreign Investment

34. Foreign Institutional Investors (FIIs) continue to repose great confidence in India. Net FII investment in India is now over US$ 7 billion. During the course of this year I have expanded the opportunities for such investments. I propose to take one more step at the instance of Indian companies. The limit of aggregate investment in a company by FIIs, NRIs and NRI-OCBs is now 24%. I propose to allow companies to raise this limit to 30%, subject to the condition that the Board of Directors of the company approves the limit and the general body of the company passes a special resolution in this behalf.

35 Venture capital funds are important vehicles for stimulating investments in new ventures. Under the present guidelines they can invest upto 5% of their corpus in the equity of any single company. This is unduly restrictive. The limit is being increased to 20%.

Capital Market

36. Over 20 million Indians have invested their savings in the capital market. The establishment of the first Depository was an important step taken to bring the Indian capital market upto world standards and to protect the interests of the investors. SEBI was asked to suggest more measures. The committee appointed by me draft a new Companies Bill has also made valuable suggestions. After considering these suggestions, I propose to accept five recommendations:

- The principle of buy-back of shares by companies subject to certain conditions will be introduced in the Companies Act;
- The provisions of Sections 370 and 372 of the Companies Act will be merged and an overall ceiling of 60% will be kept for inter-corporate investment and loans;
- The Companies Act will be amended to provide for nomination facilities for holder of securities;
- Companies raising funds from the capital market will be required to give an annual statement disclosing the end-use of such funds; and
- One time permission will be given to stockbrokers to corporatise their business without attracting tax on capital gains, which will be exempted.

37. I am of the firm view that markets will prosper when economic growth continues to be strong, the fiscal deficit is reduced, interest rates decline and investors are reassured that their interests are secure.

FERA and Money Laundering

38. As we progress towards a more open economy with greater trade and investment linkages with the rest of the world, the regulations governing foreign exchange transactions also need to be modernised. It is generally acknowledged that the Foreign Exchange Regulation Act, 1973 needs to be replaced by a new law consistent with full current account convertibility and our objective of progressively liberalising capital account transactions. Hence, I propose to introduce, later this year, a Bill titled The Foreign Exchange Management Act. A RBI-appointed group is expected to complete the drafting of the Bill shortly.

39. While FERA is being replaced, we will not let up in our effort to curb the laundering of ill-gotten money. A Bill dealing with money laundering is under preparation and I propose to introduce it during this session of the Parliament.

Capital Account Convertibility

40. A little while ago I made a reference to capital account convertibility. We are proud of our foreign exchange earners. They have been given the facility of the Export Earners Foreign Currency (EEFC) Account. At present, the total amount in these accounts is a modest Rs. 2000 crore. I propose to expand the scope of the account by allowing the following facilities:

- To open offices abroad and to meet the expenses thereof; and
- To make investments from the balance in the account in overseas joint ventures upto the limit of US$ 15 million, without reference to the RBI.

41. I also believe that the time has come for a preparatory work towards capital account convertibility. This is a cherished goal. It is also a matter of great sensitivity. Hence, I shall not make any commitment. For the present, I am asking RBI to appoint a group of experts to lay out the road map towards capital account convertibility, prescribe the economic parameters which have to be achieved at each milestone and work out a detailed time table for achieving the goal. I believe the appointment of such a group will send a powerful signal to the world about our determination to join the ranks of the frontline nations.

Science and Technology

42. My last budget was viewed in certain quarters as science and technology-friendly. Flattery has its rewards, and I intend to strengthen my friendship with the scientific community. I propose to take the following initiatives:

- The scheme to match every additional commercial rupee earned by CSIR and ICAR laboratories, as well as the IITs, will continue on a permanent basis.
- The Technology Development Board, established to accelerate the commercialisation of indigenous technology, has identified 16 projects that are commercially viable in the fields of agriculture, health, chemicals and pharmaceuticals. In 1996-97, I provided Rs. 30 crore to the Technology Development Fund. I propose to increase the allocation in 1997-98 to Rs. 70 crore.

43. Tomorrow's technology is based on today's science. I am concerned that there is declining interest in the learning of sciences in schools and colleges. I hold the view that an MBA – even if he is from Harvard – is not a patch on a scientist. On the occasion of the 50^{th} anniversary of our independence, we will launch the "Swarnajayanti" fellowships. Outstanding scientists below the age of 45 will be assisted to attain and sustain world class levels in science. A sum of Rs. 50 crore in the Department of Education's budget will be used to create a corpus. The Minister of State for Science and Technology will announce the details of the scheme.

44. Closer linkages have to be developed between Indian industry and publicly-funded research laboratories. Hence, I propose to allow government-promoted societies recognised by the Department of Science and Industrial Research and notified under the Income Tax Act to invest in the equity of private sector companies. These institutions will invest not money but their knowledge and know-how as their equity.

Information Technology

45. If there is one science that will dominate the 21st century, it is information technology. If there is one industry in which India can emerge as a world leader, it is information technology. However, for this potential to be realised, we need a completely new policy for manufacturing and marketing IT products. The Electronic Hardware Technology Park (EHTP) Scheme, presently in force, gives limited flexibility. There is an imperative need to increase production volumes and attract foreign direct investment. Accordingly, it has been decided that EHTP/EOU/EPZ units in electronic hardware may be permitted to sell one half of the value of their products, during any 12 month period, in the domestic market and export the other half. The sale in the domestic market will be on payment of excise duty equivalent to full custom duty, including additional duty of customs. Details of the new unified manufacturing scheme will be incorporated in the new EXIM policy that will be effective from April 1, 1997.

Companies Act and Direct Taxes Act

46. Hon'ble Members will recall that I had set up an expert group to draft a new Companies Bill and another expert committee to prepare a new Direct Taxes Bill. Both groups have done splendid work and have submitted their reports. Copies of the reports will be distributed widely. A working draft of each Bill will also be circulated as soon as it is ready. It is my hope that there will be wide and informed debate on the two Bills. It is my intention to bring the new Companies Bill before this House in the monsoon session and the new Direct Taxes Bill in the winter session.

Insurance

47. The CMP accords high priority to infrastructure. The India Infrastructure Report has been published and it now remains for us to implement the report. The critical need is funds, and that too long-term funds. That is why the CMP said, "There is a strong link between infrastructure development and the financial sectors reforms. Infrastructure needs long-term finances." Hon'ble Members are fully aware that long-term funds are in the Pension and Insurance sectors.

48. Our foremost companies in the insurance sector are LIC and GIC. After a long interval of time, LIC and GIC have been given the full complement of Board members. We have also decided to grant substantial autonomy to LIC and GIC, including the power to make non-scheduled, non-consortium investments, to determine the terms and conditions of service of their employees and agents, to make regulations and some other powers. LIC and GIC will be further strengthened in due course.

49. Under the present laws, pension funds are, by an archaic defintion, included in the business of life insurance. However, it is self-evident that pension and insurance are two different benefits and two different businesses. While life insurance is the monopoly of LIC, several pension funds have been rightly exempted and allowed to operate independently. In 1995, at the instance of my distinguished predecessor, UTI floated the UTI Retirement Benefit Plan. It has attracted about 80,000 subscribers. I propose to allow UTI to expand the above plan into a full-fledged pension fund. UTI has made a request to government in this regard; LIC has no objection; and hence it is appropriate to amend the laws.

51. Similarly, the penetration of health insurance cover in our country is distressingly low. Just about 20 lakh Indians have some kind of health cover. The Jan Arogya scheme, launched barely six months ago, has already attracted 4 lakh policyholders. Clearly, there is a demand for health insurance products. GIC has frankly admitted that its Mediclaim policy has not been successful and that it would like to promote joint ventures in this line of business. GIC is also confident of facing competition in the health insurance business. Accordingly, I propose to move necessary amendments to enable GIC to float joint ventures and also to allow entry of selected Indian players in the health insurance sector.

52. What I have outlined is a very modest opening of one segment of the insurance sector. LIC will continue to enjoy a monopoly in the life insurance business and GIC will continue to enjoy a monopoly in the non-life, non-health insurance business. I would also like to make it clear that only a few Indian companies, that is Indian-controlled and with majority Indian ownership, will be permitted to enter the health insurance business. Comprehensive regulation will be made and enforced by the Insurance Regulatory Authority (IRA) for all the service providers in the insurance industry. They will also have to meet the prudential, investment and social norms laid down by the IRA.

Phasing out of Ad Hocs

53. Hon'ble Members will recall that in my last Budget speech I had promised to present concrete proposals in this Budget to phase out the system of *ad hoc* treasury bills by 1997-98. I am glad to announce that the government and the RBI have worked out the specific measures in this regard.

54. The system of *ad hoc* treasury bills to finance the budget deficit will be discontinued with effect from April 1, 1997. A scheme of ways and means advances (WMA) by the RBI to the Central government is being introduced to accommodate temporary mismatches in the government's receipts and payments. This will not be a permanent source of financing the government's deficit. Besides ways and means advances, RBI's support will be available for the government's borrowings programme. Details of the scheme are being separately announced by the RBI.

55. What I am effecting today is a bold and radical change which will strengthen fiscal discipline and provide greater autonomy to RBI in the conduct of the monetary policy. With the discontinuance of *ad hoc* treasury bills and tap treasury bills, and the introduction of ways and means advances, the concept of Budget deficit, as currently defined, will lose its relevance either as an indicator of short term requirement of funds by the government or the extent of monetisation. Therefore, it is proposed to discontinue the practice of showing the 'Budget deficit'; instead Gross Fiscal Deficit (GFD) would become the key indicator of deficit. The extent of RBI support to the Central government's borrowing programme will be shown as "Monetised deficit" in the Budget documents.

Indexed Bonds

56. Several countries have used variety of indexed bonds to provide investors an effective hedge against inflation and to enhance the credibility of anti-inflationary policies followed by the government. I believe the time is ripe for India to introduce a capital indexed bond where the repayment of the principal amounts will be indexed to inflation.

New Devolution Formula

57. I have already placed in the House a discussion paper on the recommendations of the Tenth Finance Commission (TFC) on the formula to be adopted for devolution of resources from the Centre to the States. The views of the States have been received. The Standing Committee of the Inter-State Council has also considered the matter. Based on these consultations, I propose to accept the recommendations of the TFC to form a single, divisible pool of taxes to be shared between the Centre and the States. To begin with, we shall adopt the proportion of 29% recommended by the TFC. This will be an improvement on the present share of the States. However, we are willing to discuss the matter further when we bring the Constitution Amendment Bill to give effect to the decision. We reaffirm our belief that the polity of India requires a strong Centre and strong States and if, I may add, strong local bodies.

Revised Estimates for 1996-97

58. I shall now briefly go over the Revised Estimates Revised Estimates for 1996-97.

59. The Budget Estimates for 1996-97 had placed the total expenditure at Rs. 2,04,660 crore. This is now expected to come down to Rs. 2,02,298 crore. This is the net effect of a *decrease* of Rs. 2,571 crore in non-Plan expenditure and an *increase* of Rs. 209 crore in the Plan expenditure.

60. Non-Plan expenditure in the current year is placed at Rs. 1,47,404 crore. This represents a decrease of Rs. 2,571 crore over the Budget Estimates basically on account of saving of Rs. 3,000 crore in the provision made for the likely impact of the recommendations of the Fifth Pay Commission. On the other hand, we have not got Rs. 4,500 crore of the anticipated receipts from disinvestment. Despite these constraints, I made an additional provision of Rs. 1,700 crore for Defence during the year. On balance, we have managed our receipts and expenditure within the Budget.

61. My greatest satisfaction is on the Plan side. We saved a considerable amount of Plan expenditure of the Central government. It was, therefore, possible for me to provide an additional Rs. 2,500 crore to the States as Additional Central Assistance for externally-aided projects. I also provided Rs. 663 crore to Jammu and Kashmir during the year. As a result, total Plan expenditure has *increased* by Rs. 209 crore. If I have robbed Peter, the Central government, it is only to pay Paul, the States.

62. In October, 1996, the Prime Minister announced a package of initiatives for the North-East, including adequate funding for on-going projects, which will require over Rs. 6,000 crore. Government will allocate funds for these projects in the Ninth Plan. The Numaligarh Refinery is making good progress. I have provided Rs 100 crore for the project in the RE 1996-97 and over the next two years adequate funds will be found to ensure its completion on schedule.

63. The overall gross tax revenue which was estimated at Rs. 1,32,145 crore in the Budget estimates will be marginally higher by Rs. 174 crore, although the net tax revenue of the Centre would be marginally less by about Rs. 100 crore from the Budget estimate of Rs. 97,310 crore.

64. Taking into account the Revised Estimates of revenues and expenditure, the Revenue Deficit has come down from the Budget estimate of 2.5% of GDP to 2.3% of the GDP. There is no change in the Budget estimate of the fiscal deficit which would remain at 5% of the GDP. I am profoundly sorry to disappoint my well-meaning critics.

65. What will we do without our critics? As Saint Tiruvalluvar said:

"Idipparai Illatha Emara Mannan Keduppar Ilanum Kedum"

(Behold the King who reposeth not on those who can rebuke him/He will perish even when he hath no enemies.)

Budget Estimates for 1997-98

66. I now turn to Budget Estimates for 1997-98.

67. The total expenditure is estimated at Rs. 2,32,481 crore of which Rs. 62,852 crore has been provided as budget support for Central, States and UT Plans and the balance Rs. 1,69,629 crore is for non-Plan expenditure. Hon'ble Members will be pleased to note that the increase in budget support for the Plan will be Rs. 7,958 crore over RE 1996-97, which is the largest increase ever.

68. Budgetary support to the Central Plan is being concentrated on rural development, emplyment and poverty alleviation programmes and in the human resource development sectors. For 1997-98, the outlay for the Ministry of Rural Areas and Employment is being increased to Rs. 9,096 crore, an increase of Rs. 1,271 crore over the RE for 1996-97. In 1997-98, Jawahar Rozgar Yojana is estimated to generate about 520 million mandays of employment. About 90,000 habitations will be provided with safe drinking water during 1997-98 under the Accelerated Rural Water Supply Scheme.

69. The outlay for the Social Services is being substantially enhanced from Rs. 11,785 crore is RE 1996-97 to Rs. Rs. 15,707 crore in BE 1997-98. Significant increases are under Urban Development (Rs. 775 crore), General Education (Rs. 1,189 crore), Technical Education (Rs. 132 crore), Family Welfare (Rs. 282 crore) and Water Supply and Sanitation (Rs. 312 crore).

70. The Science and Technology sector is being provided Rs. 1,870 crore as against Rs. 1,584 crore is RE 1996-97.

71. The Maulana Azad Education Foundation is being given Rs. 40 crore. The National Minorities Development and Finance Corporation is being provided Rs. 41 crore.

72. Rs 96 crore is being allocated to the National SC and ST Finance and Development Corporation. For the welfare of the handicapped, I am providing Rs. 90 crore and for the National Handicapped ST Finance and Development Corporation I am giving Rs. 28 crore.

73. The total non-Plan expenditure in 1997-98 is estimated to be Rs. 1,69,629 crore. The interest payments are estimated to be Rs. 68,000 crore.

74. Fertiliser subsidy on indigenous fertilsers is being enhanced to Rs. 5,240 crore in 1997-98 from Rs. 4,743 crore in 1996-97. In addition, subsidy on imported fertilsers is being increased to Rs. 1,950 crore in 1997-98, as against Rs.

1,350 crore in. The subsidy on sale of decontrolled fertilsers is being enhanced to Rs. 2,000 crore in 1997-98 from Rs. 1,674 crore.

75. An amount of Rs. 7,500 crore is being earmarked for foodgrains and sugar subsidies in 1997-98 representing an increase of Rs. 1,434 crore over RE 1996-97. When the dual card system under the Targeted PDS takes effect throughout the country, if more funds are required, I shall provide the same. I may not wear my heart on my sleeve, but my heart is in the right place.

76. I would like to make a special mention of the outlay for Defence. Rs. 35,620 crore is being provided which included Rs. 3,620 crore for implementing the recommendations of the Fifth Pay Commission. In the past, revenue expenditure of the Defence Services had been routinely underprovided. This year, I have requested the Ministry of Defence to fully provide for the revenue expenditure. On the capital account, for the present, I am providing Rs. 8,907 crore which is Rs. 402 crore more than RE 1996-97, with a clear promise – and I make that solemn undertaking here – that any additional requirement of the Defence for capital expenditure wiil be adequately provided for during the course of the year. Mr. Speaker, Sir, my head is also in the right place.

77. A provision of Rs. 4,205 crore is being made for implementing the recommendations of the Fifth Pay Commission for employees other than Defence and Railway personnel for whom separate provision have been made in this Budget and in the Railway Budget. The recommendations of the Pay Commission are being processed expeditiously according to established procedure.

78. The non-Plan provision for assistance to public sector units has been on the increase. In 1996-97, we approved revival packages for Bharat Yantra Nigam, Bharat Bhari Udyog Nigam, Hindustan Paper Corporation, Scooters India, HEC and Bharat Refractories. For 1997-98, I am providing Rs. 1,107 crore as non-Plan loans, and I expect that we will approve more restructuring proposals during the course of the next year.

Revenue Receipts

79. I now turn to revenue receipts.

80. Gross tax revenues at the existing rates of taxation are estimated at Rs. 1,53,347 crore. After providing Rs. 40,254 crore as the States' share of taxes, the Centre's net tax revenue will be Rs. 1,13,094 crore. Non-tax revenues have also shown healthy buoyancy. The receipts under the head are expected to be Rs. 39,749 crore in 1997-98. I have taken credit for Rs. 3,681 crore as license fee from private operators of cellular and basic telecom services.

81. The net revenue receipts for the Centre, including non-tax receipts, are expected to increase from Rs. 1,30,783 crore in Re 1996-97 to Rs. 1,52,843 crore in 1997-98.

82. In the area of capital receipts, market borrowings are placed at Rs. 34,425 crore. Net external assistance will be Rs. 2,435 crore. I am also taking credit for receipts from disinvestment of equity in public sector enterprises of Rs. 4,800 crore. Total receipts at the existing rates of taxation are estimated at Rs. 2,31,876 crore.

83. I shall come to the gross fiscal deficit in Part B of my speech.

PART B

84. Let me preface my tax proposals by saying that I have set for myself the goal of augmenting the net tax revenues of the Central government by a healthy 15-16%; I believe that through the measures proposed by me we will attain this goal.

85. I shall begin with my direct tax proposals.

86. The CMP affirms that "the United Front government will continue with tax reforms and take other steps to augment revenues legitimately due to the government and to curb tax evasion. I believe that a good tax policy should aim at moderate rates, a wider tax base, simpler procedural rules and securing greater compliance. Households and the corporate sector are our best savers; we must reward them. From another point of view, however, the tax to GDP ratio for the Central government, which currently is only around 10.5 per cent, needs to increase to sustain the needs of public investment and social sector expenditure. Moreover, the proportion of direct taxes should increase in the total tax revenues of the government.

87. It is inexplicable that in a country of over 900 million people, only 12 million people are assessed to income-tax and, what is worse, only about 12,000 assessees are in the tax bracket of income above Rs. 10 lakhs. I intend to make a beginning in widening the tax net by an amendment of Section 139 of the income-tax Act. My proposal is that residents of large metropolitan cities who satisfy any of the two following economic criteria, namely, ownership of a four-wheeler vehicle, occupation of immovable property meeting certain prescribed criteria, ownership of a telephone and foreign travel in the previous year, should normally fall within the taxable slabs and should voluntarily file their tax returns. I appeal to them to cooperate in our endeavour. If anyone fails to do so, the income-tax Department would serve upon him a notice obliging him to file his return so that taxes, if due from him could be collected. Those who live in apparent comfort must have the satisfaction of finding their names in the records of the income-tax Department.

88. With the same objective, I also propose to introduce a new Estimated Income Scheme for retail traders. The scheme will apply to persons engaged in the business of retail trade of any goods or merchandise having a total turnover of less than 40 lakhs. A trader with a turnover of less than 8 lakhs will stand exempted, given the present exemption limit. The income of the trader will be estimated at 5 per cent of the total turnover. Assessees who file a return showing income less that 5% of turnover will be required to maintain books of account and get their accounts audited.

89. With the aforesaid steps, the existing presumptive scheme under section 115K, popularly known as Rs. 1,400 scheme, which has not yielded the desired results, being discontinued.

90. Members may recall that, last July, I had reduced the income-tax rate for the first income slab from 20 per cent to 15 per cent. It was, I believe, a step in the right direction. If we look at comparative income-tax slabs in other developing Asian countries, it will be evident that tax rates in India are still high and constitute an important reason for tax evasion. It is now widely accepted that moderate rates

of taxation encourage savings, foster growth and motivate voluntary compliance. I have received wise counsel from many Hon'ble Members. I have, therefore, decided to lower the rates of personal income-tax across-the-board in a significant manner. The current rates of 15, 30 and 40 per cent are being replaced by the new rates of 10, 20 and 30 per cent. The rate will be 10 per cent in the first slab of Rs. 40,000 to Rs. 60,000, and 20 per cent in the slab of Rs. 60,000 to Rs. 1,50,000 and 30 per cent for all income above Rs. 1,50,000.

91. The new rates are so moderate that there is now little justification for increasing the exemption limit. However, salaried persons deserve some relief. I, therefore, propose to increase the limit of standard deduction to Rs. 20,000, which will, henceforth, apply uniformly to all salaried taxpayers. An employee drawing a salary of Rs. 75,000 per annum and contributing 10 per cent thereof to the provident fund would have to pay no tax at all.

92. During the last meeting of the National Development Council, a suggestion was made that the government should think of a scheme to harness 'black money' for productive purposes. I have balanced the economic and the ethical arguments. I have considered various options. And I believe that the time is opportune to introduce a Voluntary Disclosure Scheme. This would be a simple scheme where, irrespective of the year or the nature or the source of the funds, the amount disclosed, either as cash, securities or assets, whether held in India or abroad, would be charged at the revised highest rate of tax. Interest and penalty will be waived. Immunity will be granted from any action under the income-tax, Wealth tax and Foreign Exchange Regulation Acts. The date of commencement of the scheme will be notified separately, but the scheme will end on December 31, 1997. Of the total resources which can be secured under the Scheme, a substantial part – 77.5 per cent – accrue to the State governments. I hope they will cooperate in our endeavour in attracting people to avail of this new opportunity being offered to those who have shied away from paying legitimate taxes in the past. The share which becomes available to the Central government will go entirely towards financing the Basic Minimum Services programme and infrastructure needs.

93. I also propose to give some further relief to our senior citizens. I propose to increase the rate of rebate available to them to 100 per cent, from the existing 40 per cent, subject to a limit of Rs. 10,000. Thus a senior citizen having an income upto Rs. 1 lakh would not have to pay any tax. Senior Citizens with higher incomes will also enjoy this exemption limit but will be taxed above the threshold level of upto Rs. 1 lakh.

94. Responding to demands from Chief Ministers, Propose to amend section 80G of the Income-tax Act to provide for 100 per cent deduction in respect of donations made to the Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund.

95. Turning to corporate taxes, I had in my last budget reduced the rate of surcharge from 15 per cent to 7.5 per cent and had expressed the hope that I would take a similar step in my next budget. I propose to abolish the balance surcharge on companies.

96. Corporates should be encouraged to undertake new investments. Hence,

I propose to reduce the tax rate applicable to both domestic and foreign companies. The rate for domestic companies will now be 35 per cent and for foreign companies 48 per cent. The reduction in the corporate rates, apart from better compliance, should impart an added momentum to the growth process, create multiplier beneficial effects all around and also attract greater foreign investment.

97. There has also been a demand from the corporate sector that the tax rate of 30 per cent on royalty and technical services fees payable to foreign companies is too high and acts as a hindrance to the transfer of technology. I, therefore, propose to reduce this rate to 20 per cent.

98. I have received requests from non-resident Indians that the capital gains tax rate in their case arising on transfer of securities should be at par with the rate applicable in the case of FIIs. I see merit in their demand and, accordingly, propose that the rate be reduced from the existing 20 per cent to 10 per cent.

99. The Minimum Alternate Tax (MAT) on companies, which was introduced last year, has been the subject of extensive debate. A large number of representations have been received to repeal – or review – the provisions. The economic rationale for MAT has, I am afraid, not been altered and I am unable to accept the request that the provision introduced last year be totally withdrawn. However, there is a case for a review of the manner in which the tax is charged and collected. I, therefore, propose to make the following changes in the provisions of MAT:-

(i) Export profits will be exempt from MAT and will be eligible for full deduction under section 80HHC.

(ii) A system of credit will be introduced in respect of the payment of MAT. When a company pays MAT, the tax credit earned by it shall be allowed to be carried forward for a period of 5 assessment years and, in the assessment year when regular tax becomes payable, the difference between the regular tax and tax computed under MAT for that year will be set off against the MAT credit available. Thus, at the proposed new rate of corporate tax, every company including the zero tax companies, would have to pay income-tax of not less than 10.5 per cent on its book profits.

100. Another area of vigorous debate over many years relates to the issue of tax on dividends. I wish to end this debate. Hence, I propose to abolish tax on dividends in the hands of the shareholder.

101. Some companies distribute exorbitant dividends. Ideally, they should retain bulk of their profits and plough them into fresh investments. I intend to reward companies who invest in future growth. Hence, I propose to levy a tax on distributed profits at the moderate rate of 10 per cent on the amount so distributed. This tax shall be incidence on the company and shall not be passed on the shareholder.

102. In order to encourage investments in government securities, called gilts, I propose to abolish Tax Deducted at Source (TDS) on such securities. I also propose to include gilts for the higher deduction limit of Rs. 15,000 under section 80L of the Income-tax Act as is available in respect of income received from the units of UTI or approved mutual funds.

103. I have already announced that Telecommunication will qualify as infrastructure. I, therefore, propose to extend the following benefits to this sector:-

(i) Tax holiday under section 80 IA;

(ii) Amortisation of license fees; and

(iii) Inclusion of investment made in debentures and equity shares of a public company providing telecommunication services for the purposes of tax rebate under section 88.

104. In order to encourage the development of tourism infrastructure, I propose to give a deduction of 50 per cent of the profits in respect of new hotels which are located in a hilly area or a place of pilgrimage or a specified place of tourist importance. These hotels will also be exempt from the levy of expenditure tax. In respect of hotels located in other places, excluding the four metropolitan cities, the deduction shall be only 30 per cent of the profits.

105. Taxing financial itermediation goes contrary to the canons of sound public finance. Today, an interest-tax at the rate of 3 per cent is levied on the interest income of lending institutions, including banks and NBFCs. I propose to reduce the levy to 2 per cent and I hope to eliminate this levy progressively. This will help to keep down the cost of borrowing.

106. As a measure of simplification, I propose to amend Section 37 of the Income-tax Act to provide for the removal of artificial disallowance on account of advertisement, travelling, hotel expenses, entertainment expenses etc. incurred for legitimate business purposes.

107. I have also decided to eliminate a number of exemptions which continue to remain on statute book and have since lost their relevance or rationale. These include exemptions and deductions under sections 10(15A), 10(26AA), 80GG and 80JJ.

108. Now, I turn to my indirect tax proposals.

109. In relation to indirect taxes the CMP has stipulated: “The progress towards the goal of bringing India’s tariffs in accord with world levels will be measure and calibrated.”

110. On more than one occasion, I have stated that we would achieve the average levels of tariffs prevalent in ASEAN countries by the turn of the century. This will give time to Indian industry to adjust to these changes. This year’s proposals should be seen in this background.

111. I propose to reduce the peak rate of customs duty from 50% to 40%

112. High levels of customs duties on capital good are inconsistent with our policy of attracting the best technology. Greenfield investments in large projects should be globally competitive. I have tried to harmonise the needs of the Indian industry with the requirements of the capital goods sector. I, therefore, propose a modest reduction in duty on capital goods from 25% to 20%. This reduced rate of 20% will also apply to project imports. Over the next two to three years these rates

would need to be further adjusted to conform to levels prevalent in other developing Asian countries.

113. I also propose to exempt plans, designs and drawings from the levy of customs duty.

114. The customs duty on several inputs for the steel industry is being reduced. I propose to reduce the duty on coking coal (of ash content below 12%) from 5% to 3% and on coking coal of higher ash content, as well as coke, from 20% to 10%. I also propose to reduce the duty on nickel from 20% to 10%, on ferro alloys from 25% to 20% and on re-rollable steel scrap from 30% to 20%. All these measures should benefit the steel industry to reduce its cost of production.

115. Iron and steel products at present generally attract customs duty at 30%. I do not propose to make any major changes in the duty structure this year. However, I propose to reduce the duty on Cold Rolled Coils of iron and steel from 30% to 25% to help the engineering industry. I further propose to reduce the duty on ships brought for breaking from 10% to 5% and on pig iron from 20% to 10%.

116. I propose to reduce the duty on non-coking coal from 20% to 10%. This will help the power sector.

117. Chemicals constitute vital inputs for several down-stream industries including the small scale sector. I propose to reduce the duty on organic and inorganic chemicals from 40% to 30%. I also propose to make the following reductions on certain essential chemicals:

- On linear alkylbenzene, from 30% to 20%.
- On methanol, from 30% to 20%.
- On naphthalene, from 30% to 20%.
- On phenol, from 30% to 25%.
- On catalysts, from 30% to 25%.

118. I also propose to reduce the customs duty on dyes, pigments, paints and varnishes, glues, enzymes and modified starches from 40% to 30%. These reductions will significantly benefit our textile industry.

119. Mr. Speaker, Sir, the scheduled dismantling of quantitative restrictions under the Multi Fibre Agreement will expose all textile exporting countries to stiff competition. The Ministry of Textiles have created a "Technology Upgradation Fund" for both the textile and jute industries to enhance the competitive efficiency of these sectors. Our textile industry has, therefore, to upgrade its technologies in the shortest possible time. Last year, I had reduced the customs duty on several kinds of textile machinery to 10%. In order to improve the quality of our garments for exports, this year I propose to ad some more processing machines to this category. However, to mitigate any adverse impact on domestic manufacturers, I have decided to allow them to import the components and parts of these machinery at a concessional duty of 10%.

120. As a relief to the woolen textile industry, I propose to reduce the import duty on apparel grade wool from 25% to 20%, on wool waste from 30% to 20% and on woolen and synthetic rags from 30% to 25%. On flax fibre, I propose to reduce the duty from 30% to 20%.

121. In order to conserve our forest resources, I propose to fully exempt wood logs, fuel wood, wood chips, etc. from customs duty.

122. The spread of "Information Technology" has radically altered conventional wisdom on growth strategies. I propose several measures to encourage this industry and to reduce costs. These include:

- Full exemption to computer software.
- Reduction on duty on computer parts, other than populated printed circuit boards from 20% to 10%.
- Reduction of duty on cartridge tape drive and digital video disc drive from 20% to 10%.
- Reduction on duty on populated printed circuit boards from 30% to 20%.
- Reduction on duty on integrated circuits from 20% to 10%.
- Reduction on duty on colour monitor tubes from 20% to 10%.
- Reduction on duty on colour picture tubes from 35% to 30%.
- Reduction on duty on parts of cellular telephones and pagers from 30% to 20%.
- Reduction on duty on telecom equipment from 40% to 30% and on their parts from 30% to 20%.

123. Ham operators are presently eligible to import specified equipment upto a value of Rs. 50,000 at a concessional rate of duty. I propose to raise this limit to Rs. 75,000.

124. I propose to reduce the duty on watch parts and movements from 50% to 25% and on watch cases of base metals from 50% to 30%. I also propose to reduce duty on horological materials from 20% to 10%. This will help our watch industry to further enhance their quality.

125. We are all concerned about the menace of growing pollution. In order to help reduce the cost of CNG kits, I have decided to reduce the customs duty on such kits and their parts from 10% to a modest 5%. Similarly, I propose to reduce the customs duty on catalytic converters and their parts to 5% from their existing rate of 25%.

126. To improve the quality of medical care, I propose to reduce the import duty on medical equipment from 30% to 20%; on linear accelerators of 15 MeV and above used for cancer treatment from 10% to 0%; and on ophthalmic blanks for making spectacle lenses from 50% to 20%.

127. To promote tourism, I propose to reduce the import duty on specified equipment required for hotels from 35% to 25% and on specified specialty food items used by foreign tourists from 50% to 25%.

128. I also propose to give some relief to the film and photographic industry by reducing the import duty on cine films and other photographic films from 30% to 25% and on parts of cameras from 50% to 25%.

129. I propose to reduce the customs duty on baggage from 60% to 50%.

130. I now come to proposals on central excise.

131. Our excise structure is far too complex. Till some time ago, we had a multiplicity of rates, innumerable end-use exemptions and other distortions. Considerable simplification has taken place. Last July, I promised that within three years we shall have a four rate tax structure. I find that, in the first instance, it is necessary to reduce the dispersion in excise rates. I believe that we can eventually gravitate towards a mean rate around 18%. With this objective in view, I have introduced three new rates, namely, 8% 13% and 18%. In the process I have done away with the rates of 20% and 10% (except in the case of some petroleum products). In the interest of revenue, I have perforce to continue, for the time being, the rate of 15% which will apply to metals and a few other commodities.

132. However, the excise duty structure is still punctuated with many exemptions. All commodities, with some unavoidable exceptions, should be subject to excise duty at minimum rate. I propose to undertake this exercise in the next year's budget.

133. Cotton yarn will continue to bear excise duty of 5% only.

134. I propose to withdraw the exemption in a few cases like jams, jellies, sauces and soups where I propose to impose a nominal duty of 8% . Similarly, I propose to levy a duty of 8% on pens and ball point pens exceeding a value of Rs. 100 per piece and on non-power sun glasses. However, writing ink will be free from excise duty.

135. On a number of items of mass consumption like biscuits, sugar confectionery, laundry soap, tooth paste, tooth powder, kitchen and tableware of glass, and clocks and watches of a value upto Rs. 600 per piece, I propose to reduce the excise duty from 10% to 8%. A rate of 13% would be applied for watches and clocks above Rs. 600 per piece and other items machinery and parts, tyres and tubes of two-wheeled motor vehicles, fluorescent tubes, and computers and parts thereof. A reduced rate of 13% will also apply to X-ray films, sanitary towels, napkins for babies and similar sanitary articles.

136. In respect of a large number of products, I propose to reduce the excise duty by percentages ranging from 2% to 7% and apply the mean rate. Accordingly, the mean rate of 18% would be applicable to many commodities including cocoa and cocoa preparations, instant coffee, sherbats, organic and inorganic chemicals, paints and dyes, electric wires and cables, toilet soaps, detergents, articles of leather, synthetic rubber, fibres and blended synthetic yarn, paper and paper board, plywood, travel goods and a host of consumer durables.

137. Agricultural and horticultural machinery are fully exempt from excise duty. I propose to extend the exemption from excise duty to milking machines, dairy machines and their parts.

138. In order to revive and give a thrust to the ailing jute industry, I propose to fully exempt all jute and jute products from excise duty.

139. At present, import of equipment and consumables by recognized research

institutions is exempt from customs duty. In the interest of the domestic producer, I propose to allow the purchase of indigenous equipment and consumables by such institutions free of excise duty.

140. I also propose to reduce the duties of excise on certain items in order to bring about a more balanced excise structure on the whole. The changes proposed are:

- Reduction of duty on taxis and cars for physically handicapped from 30% to 25%.
- Reduction of duty on polyester filament yarn from 40% to 30%.
- Reduction of duty on cosmetics and toilet preparations from 40% to 30%.
- Reduction of duty on glazed tiles from 30% to 25%.
- Reduction of duty on air conditioner from 40% to 30%.

141. Mr. Speaker, Sir, smoking in public places is banned in Delhi. The fight against cancer and respiratory diseases continues. My contribution will be to increase the excise duty on non-filter cigarettes, not exceeding 60mm in length, popularly called mini cigarettes, from Rs. 75 per thousand to Rs. 90 per thousand. I have also increased the duty on other categories of cigarettes. The increase range from Rs. 20 to Rs. 70 per thousand. There has been no increase in the excise duty on biris since 1995. I, therefore, propose to increase the excise duty on biris from Rs. 5 per thousand to Rs. 6 per thousand. The impact of this duty change on the retail price would be only 2 paise for a bundle of 20 biris. As regards cigarettes, the increase would be 15 times more for every mini cigarette.

142. The small scale sector makes an important contribution to our overall production, provides gainful employment and also contributes to our export effort. It is the declared policy of this Government to free the small scale industry from the rigours of cumbersome procedures. In line with this objective, I have radically simplified the scheme of excise duty concessions for the small scale units. I intend to continue the full exemption for duty on clearances upto Rs. 30 lakhs and upto Rs. 100 lakhs, if the small scale unit does not avail any modvat credit on duty paid inputs. The flat rate of duty will be 3% ad-valorem on clearances between Rs. 30 to Rs. 50 lakhs and 3% ad-valorem on clearances between Rs. 50 to Rs. 100 lakhs. The flat rate will apply for all specified goods to which the small scale exemption is applicable. In the revised scheme of exemption, the small scale units will not be required to maintain complicated records for availing modvat. They will also not be required to determine the classification of goods.

143. In order to curb avoidance from payment of duty, I have decided to exclude a few items like cotton yarn and texturised man-made yarn from the purview of the SSI exemption scheme.

144. Mr. Speaker, Sir, while it is our policy to moderate the tax rates and simplify procedures, the government is equally committed to curb evasion of taxes. It is reported that in some sectors, like induction furnace, steel re-rolling mills etc., evasion of excise duty is substantial and the production is not being reported correctly. I propose to tackle this problem by introducing collection of excise duty

on the basis of their production capacity. Suitable legislative changes in the excise law for enabling the implementation of the aforesaid changes are under consideration. The details of the proposals would be submitted to this House in due course.

145. The average citizen consumes a basket of commodities. As a result of my proposals – some increases and many reductions – I believe the basket will carry a significantly lower tax burden.

146. The services sector contributes nearly 40% of the GDP. 'Services' are products as much as 'manufactured goods'. Both must bear taxes. Hence, I propose to extend the service tax to cover a number of well known services like:

- Transportation of goods by road;
- Consulting engineers;
- Custom house, Steamer and Clearing and Forwarding agents;
- Air travel agents, tour operators and car rental agencies;
- Out-door caterers, pandal contractors and mandap keepers;
- Man-power recruitment agencies.

147. The proposals on service tax are estimated to yield a revenue of Rs. 1,200 crore in a full year. However, for the financial year 1997-98, I am taking credit for Rs. 900 crore. I wish to inform the House that in order to improve our national highways, I propose to utilise the bulk of the proceeds realised from service tax on transportation of goods by road to augment the resources of the National Highway Authority.

148. On the conventional basis, my proposals relating to reduction in customs duties are estimated to result in a loss of Rs. 2,625 crore in a financial year and, in the case of excise duties, my proposals are broadly revenue neutral. However, the buoyancy and the growth momentum that would be imparted to the economy would more than compensate for our losses computed through the conventional calculations.

149. I now have to say something on behalf of my colleague the Minister of Communications who has made a statement earlier today. A revision of tariffs for some postal services has become unavoidable. However, in doing so, we have kept in view the interest of the common man and the role of postal services in meeting wider social obligations. While there is no change for Registered Newspapers, the price for ordinary Post Card is being raised to 25 paise and printed Post Card to Rs. 1.50. The price for Inland Letter is also being raised from 75 paise to Re. 1 and for Envelope from Re. 1 to Rs. 2. Certain other changes are also being effected which is explained in the memorandum circulated alongwith the budget documents. The changes will take effect from a date to be notified later. The proposed revisions are estimated o yield an additional revenue of Rs. 367 crore in a full year and Rs. 305 crore during 1997-98. This modest increase is necessary for the development of postal services and in partially bridging the deficit on the numerous services being provided by the Postal Department.

150. Copies of the notifications giving effect to the above changes in customs and excise will be laid on the Table of the House in due course.

151. Mr. Speaker, Sir, as I come to the end of my labours, let me look at the final

outcome. The revenue deficit in 1997-98 is placed at Rs. 30,266 crore or 2.1% of GDP. The fiscal deficit comes to Rs. 65,454 crore which is 4.5% of GDP. I have not wavered in my commitment to continue on the course of fiscal correction. With the support of this House, and as I promised in the CMP, I hope to bring the fiscal deficit under 4% in the next budget.

152. Our goal must be to achieve rapid and broad-based growth which alone can ensure higher employment, better living standards and a humane and just society. The challenges that we face today are not unique to India. Other countries, including our friends in Asia, have faced similar challenges. Japan showed the way. Other Asian countries are surging ahead. And, finally, there is the example of China, powering its way to becoming the second largest economy in the world. These countries have shown that with courage, wisdom and pragmatism they can find their rightful places in the world.

153. Deng Xiao Peng, to whom we paid homage a few days ago, once said, "From our experience of these last few years, I is entirely possible for economic development to reach a new stage every few years. Development is the only hard truth." India's economy has also reached a new stage. Our beloved India is far stronger today than she was six years ago.

154. I would appeal to this House, and to the Indian people to heed the call of Gurudev Rabindranath Tagore:

> Desha desha nadita kari mandrita tabha bheri,
> Aashilo jata birabrinda aashana tabha gheri.
> Deen aagata oyi, Bharat tabu kayi?
> Shay ki rahila lupta aaji shaba-jana-paschatay?
> Louk bishwakarmabhar mili shabar shathay
>
> (Thy call has sped over all countries of the world
> And men have gathered around thy seat.
> The day is come; but where is India?
> Does she still remain hidden, lagging behind?
> Let her take up her burden and march with all.)

155. Mr. Speaker, Sir, with these words, I commend the Budget to this august House.

[28th February, 1997]

Budget 1999-2000

Speech of

Shri Yashwant Sinha
Minister of Finance

27th February, 1999

PART A

Sir,

I rise to present the budget for the year 1999-2000.

Introduction

2. For the first time after Independence with the enthusiastic support of all political parties in Parliament, it has been possible for me to discard the long standing tradition of British Raj of presenting the budget at 5 PM. A new beginning is being made today as I present the last Budget of 1900's. I assure you this is not the only new feature. There are many more in this budget.

The Economic Context

3. The decade of the nineties has witnessed extraordinary changes. It began with the collapse of the centrally planned economies; it is ending with market economies facing a serious crisis.

4. The year 1998 particularly has been a year of unprecedented global turmoil. The East Asian financial crisis took a heavy toll of important economies in the region and spread to other countries. Japan continued in recession and in August 1998 severe crisis afflicted Russia. By January 1999, the contagion had spread to Brazil triggering massive capital flight and a steep depreciation of the currency. World output growth dropped below 2%, the growth of world trade decelerated sharply, commodity prices fell steeply, currencies were savaged and capital flows to developing countries declined sharply.

5. In India, we had to contend with the additional challenge of economic sanctions imposed on us after the Pokhran nuclear tests. While we have not remained unaffected by these developments, we have reasons to be satisfied at the way we have withstood the impact of these challenges. Despite the hostile economic

environment, our GDP growth in 1998-99 has accelerated to 5.8% compared to 5% last year. Our farmers have led the way with 5.3% growth in agriculture and allied sectors. Since the beginning of 1998-99, we have added $2 billion to our foreign currency reserves as of February 23, 1999 and we have successfully curbed undue volatility in the forex market. The current account deficit in the balance of payments is estimated at a modest 1.4% of GDP compared to 1.6% in 1997-98. Although inflation had risen sharply during the year, we have succeeded in bringing it down to below 5% now. All this is described in detail in the Economic Survey presented to Parliament a few days ago.

6. However, there is no room for complacency. The challenges before us, both international and domestic, remain grave. The fiscal and revenue deficits of both Centre and States are still too high and are undermining our ability to bring down interest rates, stimulate investment and growth, curb inflationary potential, generate resources for priority, non-interest expenditure needs and raise exports.

7. Above all, despite our continuing concern year after year, we have made only a limited impact on the problems of poverty and unemployment. The various schemes of the Government in this area lack focus and convergence. The delivery systems need to be cost effective and community based. The fruits of economic development should largely reach the poor and the vulnerable specially the Scheduled Castes, Scheduled Tribes and Other Backward Classes who, in turn, need to be empowered fully. Without this, I am afraid, our planning will be devoid of any direction.

8. The broad strategy of this Budget therefore is six-fold:

* Begin a medium-term process of revenue and fiscal deficit reduction, along the lines indicated in the Ninth Plan, which will free more resources for productive investment and growth and contain inflation.
* Undertake a major reform of indirect taxes to promote productivity and employment.
* Deepen and widen economic reforms in all major sectors and accelerate internal liberalization to release the productive energies and creativity of our farmers, manufacturers, traders and service providers.
* Safeguard the economy from external shocks, revive exports and stimulate the domestic engines for growth revival.
* Strengthen the knowledge-based industries and thus prepare ourselves for the challenges of the new millennium.

Last but not the least

* Revitalise and redirect public programmes for human development, encompassing food security, health care, education, employment and shelter. Their focus should be on empowering the poor and the weaker sections, especially those belonging to Scheduled Castes, Scheduled Tribes and Other Backward Classes.

Agriculture and Rural Development

9. This year's growth performance has once again underlined the critical importance of agriculture in our economy. I propose a multi pronged programme to further strengthen our rural economy.

10. On water, which is the lifeblood of agriculture, I propose the following initiatives:

* It is important to unify the multiplicity of watershed development programmes within the framework of a single national initiative - a National Movement of Watershed Development that fosters implementation ability at the local level and creates community infrastructure for micro watershed projects through active involvement of Gram Panchayats, Local Self Help Groups and NGOs. For this, a Watershed Development Fund will be established with NABARD to cover 100 priority districts within 3 years. The Central Government will provide necessary matching assistance to NABARD. This will create income generating opportunities for the landless and the poor; especially those belonging to the Scheduled Castes, Scheduled Tribes and Other Backward Classes.
* The Accelerated Irrigation Benefit Programme aims to expedite the completion of ongoing irrigation projects by providing matching assistance to States. However, the water rates in most States do not even cover full Operations and Maintenance costs. To encourage better management and maintenance of costly irrigation assets, the Centre will provide larger financial assistance to States that rationalise their water rates to cover at least O&M costs.
* In order to promote farmer participation in water management, the Centre will provide a one time management subsidy and recurring assistance over an initial period of 3 years to all registered Water Users Associations, linked to incremental water rate collection. This will supplement the States' own contribution.

11. Water and credit must flow together for maximum impact. Last year, I had announced a number of initiatives for improving the flow of credit from the banking sector to agriculture. I am happy to report to this House that institutional credit flow to agriculture has shown a 20% increase in the current year, taking the level to about Rs.38,000 crore as compared to Rs.31,698 crore in the previous year. I propose to take the following further measures for improving flow of agricultural and rural credit:

* The Rural Infrastructure Development Fund (RIDF) has emerged as an important scheme for financing rural infrastructure projects of the State Governments. Last year, I had announced an allocation of Rs.3,000 crore from the banking sector under RIDF IV. I propose to continue the scheme. The corpus of RIDF V will be raised to Rs.3,500 crore. The repayment period is also being extended from five to seven years. The scope of RIDF will also be widened to allow lending to Gram Panchayats, Self-Help Groups and other eligible organisations for implementing village level infrastructure projects.
* In line with my announcement last year, the Kisan Credit Card Scheme has been launched by all public sector banks. These Cards provide timely credit to farmers in a flexible and cost effective manner. So far, six lakh Kisan Credit Cards have been issued. I am asking public sector banks to

extend the coverage so that twenty lakh farmers can benefit from this scheme in the coming year.

* The reform measures initiated to strengthen and restructure the Regional Rural Banks will continue. A provision of Rs.168 crore is being made for recapitalisation of RRBs.

* Micro enterprises have great potential for generating productive employment, especially in rural areas. NABARD and SIDBI have launched schemes for promotion of Self Help Groups and NGOs as a channel for flow of funds to micro enterprises. Following last budget's initiative, NABARD is likely to cover about 15,000 Self Help Groups in 1998-99, as against the target of 10,000. I am asking NABARD and SIDBI to redouble their efforts in this direction and ensure coverage of at least 50,000 Self Help Groups during the course of the next year.

* To augment the flow of credit for food and agro processing industries, lending by banks to this sector will be treated as priority sector lending.

12. Today, we have a very weak post-harvest storage and marketing infrastructure. This causes tremendous national loss. To overcome this problem, I propose to introduce a new credit-linked capital subsidy scheme for construction of cold storages and godowns. This scheme, which will be implemented by the Ministry of Agriculture with the help of NABARD, will help create additional cold storage capacity of 12 lakh tonnes and will rehabilitate and modernise 8 lakh tonnes of existing units over the next few years. We also propose to create 4.5 lakh tonnes of onion storage capacity. This House, especially the main opposition party, can readily appreciate our special concern for onions.

13. Fragmentation of agricultural land holdings undermines productive use of land. Some States have lagged behind in attending to this important task of land reforms. To accelerate reforms in this direction, the Central Government will provide special financial assistance to States, which undertake this task.

14. One of the problems with effective distribution and use of fertilizer is the mismatch between its demand and availability at the on-set of the sowing operations. In order to tackle this problem, I propose to experiment with an incentive discount to farmers for lifting fertilizer from the cooperative societies during the lean months of April and May.

15. The on-going schemes for the development of degraded and wastelands will be reoriented to permit local Self Help Groups and the landless poor, specially Scheduled Castes, Scheduled Tribes and Other Backward Classes, to develop and utilise such lands in each village. The whole programme will be based on participatory management with the Gram Panchayat having a pivotal role. During 1999-2000, we will earmark a total amount of Rs.50 crore to take up this scheme on an experimental basis in those States that are prepared to put in a matching contribution.

National Programme for Rural Industrialisation (NPRI)

16. Rural Industrialisation is important for creating employment opportunities, raising rural incomes and strengthening agriculture-industry linkages. Thus far, it has been pursued by a multiplicity of government agencies. However, the impact of

these programmes at the grass roots level has remained modest. We must integrate the efforts of the various government agencies and ensure active community participation. Accordingly, I propose a National Programme for Rural Industrialisation (NPRI) with the mission to set up 100 rural clusters every year to give a boost to rural industrialisation. This is being done for the benefit of rural artisans and unemployed youth. In the long run, it will reduce rural urban disparities. The Small Industry Development Organisation will coordinate this programme. The Khadi and Village Industries Commission (KVIC) will play an important role in this. The marketing infrastructure available with KVIC would be put to optimum use in this effort. It will go a long way in the marketing of rural industrial products if KVIC could develop its own brand name for the purpose. The proposed rural clusters will be spread throughout the country, with a reasonable balance between high potential and backward rural areas.

National Human Development Initiative (NHDI)

17. Even a half-century after Independence, the levels of human development in India lag behind most other countries. The essence of human development should be to empower vulnerable groups in society to take advantage of the process of development. Empowerment, in my view, entails access to five basic requirements, namely, Food, Health Care, Education, Employment and Shelter. It is our resolve to make them available to the entire population of this country within a decade. With this initiative for people-centred development, we will be implementing the Prime Minister's mandate for 'reforming the reforms'.

Food: The Targeted Public Distribution System has been designed to provide food security, especially to those below the poverty line, on the basis of susbidised foodgrain prices. With greater involvement of Gram Panchayats in its supervision and implementation, the Targeted Public Distribution System will be suitably strengthened to ensure its proper coverage and make it efficient.

The Targeted Public Distribution System does not however adequately cover the indigent senior citizens who have no income of their own and none to take care of them in the village. I propose to launch a new scheme, "Annapurna" in 1999-2000, to provide food security to such persons. "Annapurna" will provide 10 kg. of foodgrains per month free of cost to all indigent senior citizens who are eligible for old age pension but are presently not receiving it and whose children are not residing in the same village. The number of persons benefitting from the scheme will not for the present exceed 20% of the old age pensioners within that State. The Gram Panchayat will be required to identify, prepare and display a list of such persons after giving wide publicity.

Health Care: The expansion and improvement of health infrastructure and services are key goals set out in the Special Action Plan announced by the Prime Minister. While an extensive network for primary health care has been created in most rural areas, inadequate community participation and supervision has constrained use of these facilities to much below their capacity. Our goal is to integrate and synergise the existing programmes for health care, family welfare, rural development and related areas in different Central Ministries and to deploy the available resources so that every household secures ready access to both primary health care and family welfare services. The Central Government will provide funds to such Gram Panchayats that come forward with their own contribution to set up primary health care facilities in their respective areas. This will match similar assistance from the concerned State Government.

Education: Access to primary education is critical for empowering people. Several States have recorded considerable success with their respective models of education guarantee schemes. I propose to implement an Education Guarantee Scheme at the national level. The aim will be to provide an elementary school in every habitation, which does not have one within a radius of 1 km. Initially, the local community would provide the premises and select a local person as a part time teacher. Teaching material and other assistance will be provided by the Central and the State Governments, while Gram Panchayats will mobilise contribution from the local community in cash and kind for running the school for at least two years. After the school has functioned successfully for two years, it will be upgraded on a permanent basis. At least 1.8 lakh such schools will become operational during the next three years of the Ninth Plan. The resources available under the existing Centrally sponsored education schemes will be mobilised to support this important initiative. This initiative will provide an opportunity to the rural poor, especially those belonging to the Scheduled Castes, Scheduled Tribes and Other Backward Classes to secure education for their children. This is the first and most important step towards their empowerment.

Employment: At present, a variety of self-employment and wage employment schemes are in operation. To enhance the effectiveness of these schemes in generating income-earning opportunities for the rural poor, Government will follow a four-pronged strategy with the common theme of ensuring greater involvement of Panchayati Raj institutions:

* The existing scheme of Jawahar Rozgar Yojana will be modified to ensure that all funds are placed at the disposal of Gram Panchayats for creation of rural infrastructure. They will have the sole authority for preparation of annual action plans and their implementation, including the power to execute works with the approval of the Gram Sabha. The modified scheme will be called "Gram Samridhi Yojana".
* The wage employment programme of Employment Assurance Scheme will be implemented at the district/block levels, with the selection of works being decided by the Zila Parishads in consultation with the other elected representatives. The Employment Assurance Scheme presently operates through out the country. We will give special priority to areas suffering from endemic labour exodus.
* The Gram Panchayat will maintain a live employment register available to the Gram Sabha and public for scrutiny. To ensure that the funds under the wage employment schemes are spent with the active involvement of the elected Panchayati Raj institutions, it is proposed that while 80% of funds would be released to implementing agencies as per normal procedure, the remaining 20% will be released as an incentive only if the State has put in place elected and empowered Panchayati Raj institutions.

* The plethora of self-employment programmes for the rural poor will be merged into a single programme called "Swaran Jayanti Gram Swa-Rozgar Yojana", which will have greater participation of the Gram Panchayats. This will enable the implementing agencies to have greater flexibility in execution to meet the needs of the local people.

These schemes will largely benefit the poor and the unemployed youth in the rural areas, especially those belonging to the Scheduled Castes, Scheduled Tribes and Other Backward Classes.

Shelter: The rural housing shortage at the beginning of 1997-98 was estimated at nearly 140 lakh units, which included shelterless households and those with only kutcha dwellings. Government's priority will be to provide shelter to all shelterless poor households by the end of the Ninth Plan. The task of upgradation of kutcha dwellings of poor households will be completed by the end of the Tenth Plan. Furthermore, to ensure integrated provision of shelter, sanitation and drinking water, we propose to launch a comprehensive "Samagra Awas Yojana", which will embrace existing programmes including Indira Awas Yojana.

18. The National Human Development Initiative will go a long way in empowering the weakest sections of the population and improving the quality of rural life. This will minimise the rural-urban disparities. The effectiveness of this initiative will depend critically on the extent to which the Gram Panchayat, as an elected body, can assume a pivotal role in implementing the various components of the programmes. I propose to declare 1999-2000 as the "Year of the Gram Sabha" to affirm our resolve to set the process of decentralised democracy in motion, with human development as the core objective of planning.

Housing

19. Turning to shelter in urban areas, we have already taken major steps for encouraging housing development, including repeal of the Urban Land (Ceiling and Regulation) Act. To improve the flow of credit for housing I propose the following measures:

* To develop the primary and secondary market for housing mortgages, it is necessary to simplify the present legal provisions for foreclosure and transfer of property. I propose to make necessary changes in the foreclosure laws in the housing sector through amendments in the National Housing Bank Act.
* To strengthen housing finance companies, I will be proposing changes in the tax treatment of the income earned on non-performing assets.
* To enhance the availability of banking funds to the housing sector, RBI will be advising scheduled commercial banks to lend up to 3% of their incremental deposits for housing finance.
* National Housing Bank is implementing the Golden Jubilee Rural Housing Finance Scheme for which I announced a target of 1 lakh dwelling units last year. Encouraged by the satisfactory response to this scheme, I propose to increase this target by 25% to 1.25 lakh dwelling units during 1999-2000.

* The National Housing Bank has proposed a scheme, which entails a reduction in the interest rates for small borrowers. The scheme will be available in towns where Urban Land (Ceiling and Regulation) Act is not applicable. We will provide necessary support to NHB for this purpose. The details of the scheme would be announced by NHB.

20. The development of housing in urban areas also depends heavily on the quality of urban services. Many of our municipal bodies are at present financially too weak to provide basic services. To encourage these bodies to improve their creditworthiness in financial markets, I propose to accord tax-free status to a limited amount of municipal bonds issued each year. A little later, I shall be announcing far reaching tax initiatives to promote housing.

Industry and Infrastructure

21. I am deeply conscious that the last two years have been difficult for Indian industry in the context of growing integration with the world economy and the inevitable uncertainties of the global market place. But we should also be proud of the way Indian industry has surmounted difficult challenges and produced world-class winners in a number of fields such as information technology and pharmaceuticals. The process of corporate and industrial restructuring in the face of new challenges is inevitable. To help this transition, I shall be announcing important tax initiatives to facilitate corporate mergers and amalgamations.

22. The Industries (Development and Regulation) Act will be reviewed and amended so that the primary focus is shifted to development of industry rather than its regulation.

23. The Monopolies and Restrictive Trade Practices Act has become obsolete in certain areas in the light of international economic developments relating to competition laws. We need to shift our focus from curbing monopolies to promoting competition. Government has decided to appoint a Committee to examine this range of issues and propose a modern Competition Law suitable for our conditions.

24. The Prime Minister's Advisory Council on Trade and Industry has made important recommendations regarding knowledge-based industries. The pharmaceutical industry is one of the important knowledge-based industries where we have comparative advantage. We must strengthen our drug industry's research and development capabilities. Government has decided to set up two High Level Committees to review the present drug policy so as to reduce the rigours of price controls where they have become counter-productive and also to identify required support to Indian pharmaceutical companies to undertake domestic R&D. My colleague, the Minister of Chemicals and Fertilizers will be making a separate announcement regarding this initiative. Further, in order to promote foreign direct investment in this sector, Government has decided to permit up to 74% equity under the automatic route.

25. While we devote our attention to the new sunrise industries, we have not neglected established industries like textiles, which employs 380 lakh workers and accounts for about 20% of our manufacturing valued added. The Technology Upgradation Fund Scheme has been approved by the Government and will become

operational from April 1999. For the next five years it will provide a substantial interest incentive of 5% on loans availed by textile units from financial institutions and banks. It will cover weaving, knitting, processing and finishing units, garment manufacturing, cotton ginning and processing and the jute industry. The scheme is being extended to include the spinning industry also.

26. In the National Agenda for Governance, my Government has already proclaimed our commitment to the Handloom sector for providing services, technical and marketing facilities for handloom weavers. In the area of marketing, I propose to introduce a new integrated handloom promotion scheme, Deen Dayal Hathkargha Protshahan Yojana which would encourage processing facilities, new design inputs to weavers and opening new avenues for marketing of handloom fabrics.

27. Government has already undertaken important legislative and other reform initiatives in key infrastructure sectors such as power, telecom, roads and ports.

28. The Sethusamudram Ship Canal Project will provide a shorter sea route between the Eastern and the Western ports of our country. I propose to provide funds during 1999-2000 to examine the techno-economic feasibility of this much awaited project.

Small Scale Industry

29. Last year, I had announced a number of initiatives to improve the availability of credit to the SSI Sector. Credit delivery to this sector continues to pose challenges to our banking sector. I propose the following initiatives to improve the delivery system for credit to SSI units:

* The composite loan scheme of SIDBI and commercial banks is designed to ease operational difficulties of the small borrowers by providing term loan and working capital through a single window. The limit for composite loans is currently Rs.2 lakh. I propose to increase this limit to Rs.5 lakh.
* To simplify the computation of working capital limits of SSI units, last year I had announced that for SSI units having an aggregate turn over of Rs.4 crore, working capital limit would be fixed at 20% of the annual turnover. I propose to increase this limit to Rs.5 crore.
* In line with the recommendations of a high powered committee appointed by it, RBI had advised banks to delegate more powers to branch managers to grant ad hoc limits, to simplify application forms, to fix their own norms for assessment of credit requirement and open more SSI branches. These measures should ease the flow of bank credit to SSI units.
* To increase the outreach of banks to the tiny sector, lending by banks to non banking finance companies or other financial intermediaries for purposes of on-lending to the tiny sector is being included within the definition of priority sector for bank lending.
* Inability to provide adequate security to banks and low recovery are often cited as a major constraint in flow of investment credit to SSI units. The problem is more acute for export oriented and tiny sector enterprises. To alleviate this problem, a new credit insurance scheme will be launched.

Science and Technology

30. "Jai Vigyan" is the tribute so aptly paid by our Prime Minister to hail the achievements of our scientists. The time has come to unleash the creative potential of our scientists and innovators at grass roots level. Only then we can make India truly self-reliant and a leader in sustainable technologies. I propose a national foundation for helping innovators all over the country. This Fund, with an initial corpus of Rs.20 crore, will build a national register of innovations, mobilise intellectual property protection, set up incubators for converting innovations into viable business opportunities and help in dissemination across the country.

31. Our research institutions have the capacity to evolve new vaccines that will revolutionise the medical and health systems. We propose to set up a Technology Mission on vaccines to provide a focus to the effort.

32. Our country is endowed with diverse and precious genetic resources, which need to be prudently conserved and managed. Among the 18 hot spots of bio-diversity in the world, two happen to be in India, in the Eastern Himalayas and the Western Ghats respectively. To coordinate policies, research, documentation and legal protection of the country's rights in this important area, a National Bio-resources Board (NBB) will be set up under the Chairmanship of the Minister of Science and Technology.

Banking

33. Last year I had announced important decisions flowing from the Narasimham Committee Report on Banking Sector Reforms. Subsequently, the Reserve Bank of India has taken further follow up action. I propose to carry forward the reform process:

* The high level of NPAs in our public sector banks continues to remain a cause of concern. The Debt Recovery Tribunals, which were set up for expeditious adjudication and recovery of debts due to banks and financial institutions, have started showing encouraging results. Government has decided to set up 5 more DRTs and 4 more Debt Recovery Appellate Tribunals. I also propose to introduce a Bill in the current session of Parliament to make certain amendments in the Recovery of Debts due to Banks and Financial Institutions Act to strengthen its provisions.
* A Working Group has recently been set up by us to devise appropriate strategies for dealing with the problem of restructuring weak banks including their NPAs.
* The inability of banks to enter into timely compromise settlements of chronic cases of overdue loans leads to locking up of banks' funds and long drawn litigation in recovery suits. Public sector banks will be encouraged to set up Settlement Advisory Committees so that such chronic cases, specially those relating to the small sector, are settled in a timely and speedy manner. RBI will be issuing necessary guidelines to the banks in this regard.
* Our banks are required to observe RBI norms for maintaining provisions against doubtful and non-performing assets. These norms have been strengthened in recent years. To assist banks to come up to international

standards of prudential norms I shall be announcing certain changes in the tax deductibility of provisions made.

External Sector

34. To strengthen our external payments situation, we need to revitalise our exports and encourage more non-debt inflows in the form of foreign investment. The following steps will be taken:

* The existing scheme of export credit in foreign currency is being revamped to make available pre-shipment and post-shipment credit at internationally competitive rates and bring about major simplification of procedures. The RBI will separately announce the details.
* Studies show that our exporters are handicapped by high transaction costs related to foreign trade licensing, tax procedures and the banking system. I am establishing a high powered committee under the Revenue Secretary to go into this problem and make concrete recommendations for reduction in such transaction costs within three months.
* In order to make inflows of foreign direct investment hassle free, the Government has decided to expand the list of automatic approvals covering important industrial and services sectors. The expanded list will be announced separately by the Minister of Industry. Wherever FIPB clearance is required, henceforth FIPB will give the decision within 30 days.
* There have been complaints about slow implementation of foreign direct investment (FDI) approvals. To ensure that such approvals are quickly translated into actual investment inflows and projects, Government has decided to create a Foreign Investment Implementation Authority (FIIA) within the Ministry of Industry, which may also include representatives of State Governments.
* Households and various charitable and religious institutions hold a huge amount of gold in the country. These are idle assets earning no income for the holders, who often incur costs to ensure security. This is a somewhat anomalous situation considering that the country spends thousands of crore worth of foreign exchange each year to meet fresh demand for gold holding. To mobilise this idle gold, I propose a new Gold Deposit Scheme. Selected banks will be permitted to accept gold deposits and issue interest bearing certificates or bonds which, on maturity, can be reclaimed in gold. This would free depositors from the problems of storage, movement and security for the gold in their possession, while providing them with a regular source of income. For the country, by recycling idle gold, we should be able to reduce our dependence on imported gold. To encourage this process, I propose to exempt the interest on the gold deposit bonds/certificates from Income Tax and the value of assets deposited in the gold deposit scheme from Wealth Tax. Furthermore, any capital gains made on these gold bonds/certificates through trading or at redemption will be exempt from capital gains tax. I would also urge all State Governments to consider exempting movement of gold covered under the scheme from octroi, sales tax, stamp duty and similar levies. I must point out that the scheme will not enjoy

amnesty. The Reserve Bank will take necessary steps to implement the scheme.

* In my last Budget, I had proposed a set of initiatives to strengthen the participation of Non-Resident Indians (NRIs) in the development of our country. Encouraged by their response, I now propose a few more initiatives:
* We shall extend the facility of automatic approval for investment up to 100% by NRIs/OCBs for all items, except those which attract notified FDI equity caps, or compulsory licensing or public sector reservation under the Industrial Policy or are reserved for the small scale sector.
* Our major stock exchanges have screen-based automated trading in securities. It is now technically possible for them to open trading terminals abroad, which would facilitate the participation of NRIs in our capital markets. I have asked the Securities and Exchange Board of India (SEBI) to work out the modalities for this purpose.
* The existing RBI approval mechanism for NRI investment in Indian mutual funds will be simplified to a post-facto reporting mechanism.

Capital Market

35. A vibrant capital market is essential for providing the much-needed funds for our infrastructure sector. Infrastructure projects need long term funds, which, in turn, require a deep and well-functioning debt market. With a view to modernising the debt market and introducing paperless trading in this segment also, Government proposes to abolish stamp duty on transfer of debt instruments within the depository mode.

36. Lately, there has been considerable debate on the importance of good governance of Indian corporates. It is increasingly being realised that if investors have to be drawn back to the capital market, companies have to put their houses in order by following internationally accepted practices of corporate governance. This is necessary to enhance investor confidence. To help promote this trend, I propose to institute a National Award for Excellence in Corporate Governance.

37. The Deepak Parekh Committee appointed by the UTI has made wide-ranging recommendations, including for restructuring of the US-64 scheme and for granting tax incentives. We are taking necessary action. I will come to the tax incentives shortly. The details of the restructuring are being announced separately in a press release. This should lift the cloud of uncertainty from the capital market and restore confidence.

38. My tax proposals will also greatly strengthen mutual funds and thereby help bring small retail investors back into the capital market. It has also been decided to set up a joint mechanism between SEBI and the Department of Company Affairs for taking stringent action against unscrupulous promoters who raise money from investors and misutilise them.

Expenditure Management

39. The high rate of growth of non-developmental expenditure by Government is a growing and critical source of concern. I propose the following initiatives:

* The most effective and lasting solution to this problem is to begin the process of downsizing Government. We are making an immediate beginning by

abolishing four Secretary-level posts through a process of merger and rationalisation of Central Government departments. This will take effect on April 1, 1999.

* To carry this process forward in a systematic way towards reducing the role and the administrative structure of the Government, we will constitute an Expenditure Reforms Commission headed by an eminent and experienced person.

* In preparation for the next Budget, I propose to initiate a system of Zero Base Budgeting.

* To promote transparency and curb the growth of contingent government liabilities, Government has decided to establish a Guarantee Redemption Fund with an initial corpus of Rs.50 crore. I encourage all State Governments to set up similar Funds.

Public Sector Reform/Disinvestment/Privatisation

40. Government's strategy towards public sector enterprises will continue to encompass a judicious mix of strengthening strategic units, privatising non-strategic ones through gradual disinvestment or strategic sale and devising viable rehabilitation strategies for weak units.

41. The disinvestment programme of the Government draws primarily upon the recommendations of the Disinvestment Commission. The Commission has so far submitted 8 Reports containing recommendations for 43 Public Sector Enterprises (PSEs). These recommendations are in various stages of implementation. Government will be referring more PSEs to it for its valued opinion. In 1999-2000, I propose to raise Rs.10,000 crore through the disinvestment programme. This will help the Government to fund the requirements of social and infrastructure sectors. Equally important, it will lead to improvements in productivity and profitability of these enterprises and also to the further development of domestic capital markets.

42. Government have been providing budgetary support to Central PSEs for rationalising manpower under the Voluntary Retirement Scheme (VRS). However, such assistance has generally been restricted to loss making enterprises. There are a number of enterprises which are marginally profit-making and which need to reduce manpower to remain viable but do not have the resource to finance such rationalisation exercises. Government would encourage such enterprises to raise money from banks against Government guarantees and interest subsidy.

43. In order to reduce the burden on budget on account of the implementation of VRS, Government will also encourage PSEs to issue bonds to the workers opting for VRS. Government will guarantee the repayment of such bonds and also reimburse fully the interest payments. RBI will be requested to issue necessary instructions to banks to accept bonds as collateral for loans to workers who may need assistance.

44. The need for timely and reliable statistics for policy formulation and planning cannot be over emphasised. There is reason to believe that with progressive dismantling of the system of economic controls, the quality of data flows has weakened. Government has decided to establish a National Statistical Commission to critically examine the deficiencies of the present statistical system with a view to recommending measures for a systematic revamping of the system.

45. We stand today at the edge of the second millennium. We must, therefore, prepare for the opportunities and challenges of the next century and millennium. It is time to seriously debate and decide on the second generation reforms that we must put in place to make India economically strong and fully capable of competing successfully in the evolving world order. To further this process, I plan to bring a discussion paper before Parliament before the end of this Budget Session. My goal is to help build a consensus on the basic issues so that we can act more decisively to raise the growth in income, output and employment in our economy to a higher, sustainable level.

Revised Estimates for 1998-99

46. The non-Plan expenditure has increased by Rs.17,616 crore. There is a shortfall of Rs.3,631 crore under Plan. The normal non-Plan expenditure of the Government departments has increased only by Rs.2,539 crore. The other increases are on account of loans to States and UTs against net Small Savings collections, Rs.9,588 crore, pension, Rs.2,711 crore, interest payments, Rs.2,248 crore, and postal deficit, Rs.530 crore.

47. Net tax revenues for the Centre are estimated at Rs.1,09,537 crore against Rs.1,16,857 crore budgeted, reflecting a shortfall of Rs.7,320 crore. The shortfall is mainly due to lower customs revenue on account of both lower volume and unit-price of imports and lower excise revenue resulting from low industrial growth. Disinvestment receipts are expected to be Rs.8,000 crore against Rs.5,000 crore budgeted.

48. The fiscal deficit is thus likely to increase to 6.5% of GDP from the budget target of 5.6% on the basis of comparable GDP estimates. However, if the increase over budget in small savings loans to States and Union Territories is excluded, the adjusted fiscal deficit would be 5.9%.

Budget Estimates for 1999-2000

49. In the budget estimates for 1999-2000, the total expenditure is estimated at Rs.2,84,003 crore, of which Rs.77,000 crore is for Plan and Rs.2,07,003 crore for non-Plan.

Plan Expenditure

50. The budget support for Central, State and UT Plans has been placed at Rs.77,000 crore, marking an increase of Rs.8,629 crore over revised estimates 1998-99. Following the direction of the Prime Minister, the Plan for 1999-2000 focuses on basic human development needs such as education, health care, social welfare, housing, and water supply. Thus, out of the total Gross Budgetary Support of Rs.44,000 crore for the Central Plan 1999-2000, Rs.31,035 crore has been provided to 18 Ministries/Departments covered by the Prime Minister’s Special Action Plan. Total Central Plan outlay at Rs.1,03,521 crore will be more by Rs.15,039 crore from the last year’s level of Rs.88,482 crore. Gross budgetary support for the Central Plan is being enhanced from Rs.38,263 crore in the revised estimates 1998-99 to Rs.44,000 crore.

51. Compared to revised estimates 1998-1999, outlay for Plan programmes has been significantly increased in certain priority sectors. For example, the increase is 34.5% in the Agriculture and Allied Activities and 21.9% in Social Services.

52. Central Plan assistance to States and Union Territories in 1999-2000 is placed at Rs.33,000 crore as compared to Rs.30,108 crore in the revised estimates 1998-99. Assistance for Basic Minimum Services and Slum Development Schemes is proposed to be enhanced from Rs.3,684 crore to Rs.4,043 crore.

53. Last year, I had announced a non-lapsable pool for the North East. I am glad to inform you that we have already released Rs.98 crore for projects in the North East out of the savings from the budget of different Central Ministries.

Non Plan Expenditure

54. Non-Plan expenditure in 1999-2000 is estimated to be Rs.2,07,003 crore compared to Rs.2,13,541 crore in revised estimates 1998-99. This would have actually been Rs.2,32,003 crore but for a change in the system of accounting of loans to States and UTs against net Small Savings collections with effect from 1.4.99. The changeover, which is in the interest of transparency and viability of the Small Savings schemes, is being made in deference to a suggestion in the Inter State Council in December 1998 on delinking the small savings from Central Government's fiscal deficit concerns. A Committee set up under the chairmanship of Shri R.V. Gupta has gone into the issue. Based on the Committee's recommendations and with the concurrence of the Comptroller and Auditor General of India, the transactions will now be under a newly created National Small Savings Fund in the Public Account, which will reflect the Treasury Banking nature of these operations. A copy of the Committee's report is being placed in the library of the Parliament for Hon'ble Members' information.

55. Major items of increase in non-Plan expenditure are Interest payments, Rs.10,752 crore, Defence expenditure, Rs.4,494 crore, and grants to States, Rs.3,621 crore. A provision of Rs.1,735 crore has been made for non-Plan loans to public sector enterprises mainly for payment of salaries and wages to the employees of sick and convalescent PSUs.

56. Rs.45,694 crore are being provided for Defence expenditure against Rs.41,200 crore in revised estimates 1998-99. Further need based budgetary support will be provided during the course of the year.

Revenue Receipts

57. Before I proceed to detail my tax proposals, I would like to highlight the position of fiscal deficit in 1999-2000, if the existing rates of taxes and tariffs are continued. Gross tax revenues would then be Rs.1,67,526 crore and the Centre's net tax revenue would be Rs.1,22,730 crore. Non-tax revenues are estimated to increase from Rs.48,128 crore in revised estimates 1998-99 to Rs.50,475 crore this year. The net revenue receipts for the Centre, including non-tax receipts, would increase from Rs.1,57,664 crore in revised estimates 1998-99 to Rs.1,73,205 crore in 1999-2000. After taking into account receipts of Rs.10,000 crore from disinvestment of equity in public sector enterprises, the fiscal deficit would be Rs.89,713 crore. This is unacceptably high. I shall now come to my proposals to reduce the deficit.

PART B

58. Sir, I now present my tax proposals.

59. I will start with indirect taxes, with excise first. The multiple rates of indirect tax are generally recognised to be a major source of misclassification, tax evasion and avoidance and cumbersome litigation. The multiplicity also encourages inefficient allocation of resources. Over a 100 countries in the world now enjoy the benefits of a Value Added Tax (VAT) with very small number of rates in each case.

60. In my last Budget, I had clearly stated my resolve to rationalise the rate-structure so as to reduce the multiplicity of rates and ensure convergence towards a central rate with a merit rate and a demerit rate. Most of our major industry associations have also called for a triple rate excise structure.

61. My excise proposals today largely fulfil my intent announced 9 months ago. Specifically, I propose to reduce the existing 11 major ad valorem rates to 3, namely, a central rate of 16%, a merit rate of 8% and a demerit rate of 24%. To achieve this, I propose to:

* Merge the existing rates of 5%, 10% and 12% into the existing 8% rate;
* Create a new rate of 16% by merging the existing 13%, 15% and 18% rates into it; and
* Fix a new rate of 24% in substitution of the existing rate of 25%.

Honourable Members may notice that I have reduced the previously announced central rate of 18% to 16%. This means lower costs and prices. There is also a happy coincidence that this rate is almost identical to the rate of one-sixth (Shadbhaga) advised by Kautilya, the noble sage of Pataliputra, which also happens to be my birthplace.

62. Considerations of revenue in this difficult year, however, persuade me to fix 2 slabs of surcharge (special duty of excise) of 6% and 16% over the rate of 24% on commodities which today carry a rate of duty of 30% and 40%. Thus total excise on these commodities will remain unchanged. Petrol will continue to be taxed at 32%. The surcharge structure gives a clear indication that in future the Government would gradually phase them down to the demerit rate of 24%.

63. As a result of these changes the excise rates for many commodities will either come down, or remain unchanged or be adjusted marginally upwards by a 1% point. In the one major area of machinery and capital goods where the basic rate is rising from 13% to 16%, I must point out that excise on such products are eligible for MODVAT credit in the hands of the buyer. Furthermore, to help the capital goods sector, my customs duty proposals include removal of the long standing anomaly by which the duty rate on the major input, steel, is higher than the duty rate on finished capital goods. I must also emphasise that this major reform of the excise rate structure is broadly revenue neutral. It does not impose additional tax burden on industry as a whole. I am confident this major reform will stimulate productivity, growth and employment.

64. Mr. Speaker, Sir, I now move on to my next proposal. I propose to garner additional revenue by way of an additional duty on High Speed Diesel Oil (HSD). Currently, international and domestic prices of crude oil and petroleum products are unusually soft, and it is felt that raising some additional revenue through this commodity would be an equitable method of resource mobilisation. Therefore, I propose an additional duty of Re. 1 per litre on imported and domestic HSD, the revenue from which will accrue entirely to the Centre. Of this duty, I propose to allocate half to support the initiatives in rural development and social sectors. The other portion of 50 paise of this duty as also the duty of Re.1 per litre levied with effect from 2.6.1998 will be converted into a statutory cess and transferred to the Central Road Fund. 30% of the Fund will be transferred to the State Governments for development and maintenance of State Roads. The balance amount will be utilised for development and maintenance of National highways and expressways and by the Ministry of Railways for construction of Railways over-bridges and Railways safety works at unmanned Railways crossings. This will cover the gap in the plan resources of the Ministry of Railways for the year 1999-2000. It is estimated that we will be able to collect an aggregate amount of Rs.4,591 crore as additional duty of excise and Rs.363 crore as countervailing duty on domestically produced and imported HSD over the year. The Ministry of Petroleum & Natural Gas will announce consequential changes in the price of HSD effective from midnight tonight. This will also fulfil in a large measure the will of Parliament reflected in Resolution dated 13th May, 1988, which contemplated earmarking a portion of the excise and customs duties on petrol and diesel to raise resources for development of roads.

65. In the last budget the MODVAT adjustment allowed to manufacturing units had been capped at 95%. I propose to lift this cap on MODVAT claims and restore it to 100%.

66. Mr. Speaker, Sir, my budget proposals also contain a package for the Small Scale Industry (SSI) sector consisting of the following components:

* Under the specific excise duty concession schemes for units manufacturing cosmetics, refrigeration and air-conditioning equipment, I propose doubling of the turn-over under the eligibility criteria from Rs.50 lakh to Rs.100 lakh; doubling of the duty free exemption slab from Rs.15 lakh to Rs.30 lakh; and, an increase from Rs.15 lakh to Rs.20 lakh in the clearances eligible for duty at half the normal rates.
* I propose to extend the benefit of the SSI exemption limits to small-scale units producing cotton yarn.
* I propose to exempt small job workers engaged in printing of glazed tiles from the incidence of excise duty.
* Currently, SSI units are not eligible for exemption from excise duty on products bearing the brand name of another manufacturer. I propose to extend the SSI exemption to goods bearing a brand name of another manufacturer, when produced by units located in the rural areas. The details of the scheme will be announced shortly.

67. Under the current procedure, all manufacturing units are required to pay excise duty at the time of clearance of goods from their manufacturing premises. As

a measure of further simplification of administrative procedures, I propose to permit SSI units to pay excise duty on a monthly basis with effect from 1.6.1999. Besides constituting a significant step in the simplification of procedures, this change will also improve the liquidity position of manufacturing units in the SSI Sector.

68. I am proposing a similar procedural relaxation in respect of the requirement of maintenance of excise records by factories. Henceforth, factories paying more than Rs.5 crore excise duty in a year, will not be required to maintain their records in a specific format prescribed by the excise department; and, the records maintained in the normal course of their functioning would be accepted as adequate. This amendment will take effect from 1.6.99.

69. Currently, there are several commodities, which are enjoying either total exemption from excise duty or are enjoying concessional excise duty. These concessions were sanctioned in the past with reference to the specific circumstances relating to that commodity prevailing at that point of time. With the lowering of general rate of duties, the need for such exemptions and concessions has abated. I propose to set up an Expert Committee to examine and advise on where the exemptions should be retained and where they should be integrated into the new rate structure. Their report should be available for consideration before the next budget.

70. As Hon'ble Members are aware, Government is empowered to grant exemptions from excise duty on an adhoc basis. I do not consider such wide discretion necessary. Hence, I propose to abolish Government's power to grant adhoc exemptions of excise duty except for goods of strategic nature, or for charitable purposes. I propose abolition of similar powers on the customs duty side also.

71. Mr. Speaker, Sir, I now turn to my proposals relating to customs duties. My proposals here reflect a balance of differing considerations. On the one hand, we are committed to a calibrated integration of our economy with the world economy. This would entail further phasing down of our customs duties to Asian levels. On the other hand, is the need to raise revenue and the fact that in a year of exceptional turbulence and uncertainty in the world economy, our industry should be cushioned against unusual surges of competitive pressure from imports.

72. Sir, a special customs duty of 2% was imposed in the budget of 1996-97, and a further special customs duty of 3% was imposed on certain items in 1997-98. The special customs duty of 5% is in force till 31.3.1999. I have in the course of another discussion assured this House that the period of validity of this special customs duty will not be extended. I announce the discontinuance of the 5% special customs duty with effect from 28.2.1999.

73. After careful examination of various possibilities, and close interaction with the apex organisations of Commerce and Industry, I propose to reduce the existing 7 major ad-valorem rates of customs duty to 5 basic rates. The new rates will be:

- 5% - which will remain unchanged;
- 15% by substituting the existing 10% rate;
- 25% by merging the 20% and 25% rates;

- 35% by merging the 30% and 35% rates;
- 40% - which will remain unchanged.

74. The one industry in which a special regime of customs duty will apply is the Information Technology sector. The Prime Minister has repeatedly emphasised the importance of this sector for the country's development in the new century and millennium. Accordingly, I am proposing significant reduction in duty rates of a number of critical inputs in this sector, such as ICs and micro assemblies, storage devices and CD Roms, telecom equipment and optical fibres.

75. To garner revenue to meet the country's irreducible needs, I propose a uniform surcharge of 10% on all commodities, excluding the following categories:

- Crude Oil and Petroleum Products;
- Items attracting 40% rate of basic duty;
- Certain GATT- bound items;
- Gold and Silver;

The effect of the surcharge would be to raise the basic rate by 10%. Thus a basic rate of 5% would become 5.5%, 15% would become 16.5% and so on.

76. Taking into account that special customs duty is being discontinued, and that crude oil and petroleum products are exempt from surcharge, the effective import duty rates on these products will stand reduced. This is consistent with the Government's established policy of rationalising indirect taxes on these products in an agreed time-frame.

77. By exempting items attracting 40% rate of basic duty from the surcharge, there is a modest but clear reduction in the peak rate of protective custom duty from 45% to 40%.

78. Mr. Speaker, Sir, conceptually, I am averse to zero custom duty, since our domestic industry generally merits some minimal protection. I have reviewed the entire list of such commodities and to begin with I am proposing the imposition of 5% rate of duty for some of these commodities. In order to mitigate the impact of the incidence of 5% rate of duty on such items which have previously enjoyed exemption, I propose to exempt this category from the existing 4% special additional duty.

79. I am rationalising the import duty structure of project imports. Under this rationalisation, power generation, coal mining, refinery, telecom and fertilizer projects will now attract a nominal basic customs duty of only 5%. However, they will be subject to applicable rates of countervailing duty. The net impact of these changes will not be significant in most cases. Mega Power Projects also will be an exception to this.

80. Mr. Speaker, Sir, as a result of the various proposals made in this budget on the indirect taxes, the estimated revenue in 1999-2000 would be Rs.1,17,625 crore, including a component of net additional resource mobilisation of Rs.6,234 crore.

81. Last year, I had announced the setting up of an Authority for Advance Rulings for Excise and Customs. The necessary legislation has been included in this Finance Bill. Drawn on the lines of the Advance Rulings Authority on the Direct Taxes, the proposed Authority would provide binding rulings on important issues, so that intending investors will have a clear-cut indication of their duty liability in advance.

82. The Central Board of Excise & Customs has adopted a "Vision Document" and the "Citizens Charter" which together present a blue print for the future and the service standards that can be expected of the Customs and Excise Department. The compliance of the service standards set out in the Charter is being closely monitored. The Commissioners of Customs and field level officers have been directed to enhance the quality of their service and have also been told that any non-compliance would be viewed adversely.

83. On the central excise side, the computerisation of assessment and audit operations is being given focussed attention, and before long, electronic filing of returns is proposed to be put into operation.

84. Copies of the notifications giving effect to proposed changes in customs and excise duties will be laid on the Table of the House in due course.

85. Mr. Speaker, Sir, I now turn to the proposals on the direct tax side.

86. With growing liberalisation of the economy has come the need for industrial restructuring so that companies can focus better on their core activities. The corporate sector has been voicing the need for a flexible fiscal policy for regulating business re-organisations. In response to this need, I propose a comprehensive set of amendments to the Income Tax Act to make such business re-organisations fully tax neutral. In the case of amalgamation of companies, the existing requirement of routing the proposal through Board of Industrial and Financial Reconstruction is being removed. The legal provision is proposed to be amended so that the eligibility for tax concessions is only contingent upon a minimum of 75% of the fixed assets of the amalgamating company being absorbed in the amalgamated company, and subject to the condition that the amalgamated company will continue the business of the amalgamating company for a minimum of 5 years. An enabling provision will be provided through the amendment of the Income-Tax Act, for the detailed guidelines to be issued subsequently under the powers available from the statutory provision.

87. In the case of de-mergers, I propose to introduce a legal provision so as to permit the carry forward of accumulated losses and unabsorbed depreciation from the de-merging company to the resultant company. I also propose to amend the legal provisions so that, neither the companies involved, nor the shareholders, are subject to capital gains tax as a result of the transactions. Further, it is proposed that all fiscal concessions will survive for the unexpired period in the case of amalgamation and de-mergers

88. Mr. Speaker, Sir, Government has been greatly concerned about the persisting sluggishness in the capital markets. Government is also distressed to note the negative perception of some sections of the investing public in regard to the

schemes operated by the Unit Trust of India. Based on the recommendations of the Committee headed by Shri Deepak Parekh, and also taking into account a large number of suggestions offered by various experts in the field, I now propose a substantial fiscal package to restore the confidence of the shareholders in the UTI, and more generally to invigorate the capital markets.

89. First, I propose to fully exempt from income tax all income from UTI and other Mutual Funds received in the hands of the investors. This will not only reduce the incidence of tax, but will eliminate the inconvenience faced by small investors in paying tax and claiming refund in connection with income derived from such investments.

90. Presently if the income in the hands of the investors is fully exempt from tax, this income is subjected to dividend tax under Section 115 (O) of the Income Tax Act, at the stage of distribution of the dividend by UTI or mutual funds. As a departure from the policy, and as the second element of the package, I propose to continue for 3 years the exemption for US-64, Scheme as also for all open-ended equity-oriented schemes of UTI and mutual funds - with more than 50% investment in equity - from dividend tax. However, income distributed by Mutual Funds, where the equity investment is less than 50%, will become subject to the 10% dividend tax.

91. As a result of these two tax initiatives, investments in UTI and other Mutual Funds will become much more attractive and equity-oriented schemes will be relatively more attractive than schemes where equity investment is less than 50%. This should encourage the return of small investor to the capital market and revive confidence.

92. A complaint has often been voiced that there is discrimination between the rate of long-term capital gains tax on transfer of shares and securities as between residents and non-residents. The current rate of long-term capital gains tax for resident Indians is 20% linked to a notional value of capital gains, computed with reference to a Cost of Inflation Index. However, the rate of long-term capital gains tax for non residents is only 10%. In response to this complaint, I now propose to amend the law so as to cap the long-term capital gains tax for resident Indians on transfer of shares and securities, at the 10% rate.

93. In some of the 'sunrise' sectors of the economy, the management is adopting a policy of offering stock options and Sweat Equity, to their employees. The tax implications of such transactions are somewhat ambiguous. Therefore, I propose in this budget to make certain amendments in the law, to put it beyond doubt that such stock options will be taxed as a perquisite at the time of exercise of the option by the employee, and later as capital gains at the time of sale of the security. These amendments, I expect, will remove the grey areas which exist in the current law relating to such transactions.

94. For boosting high-tech sectors and supporting first generation entrepreneurs, there is an acute need for higher investment in venture capital activities. Very recently we have relaxed the guidelines under the existing scheme by removing the requirement for time-bound investment and minimum lock-in-period of funds. I am also harmonising the guidelines for registration of venture capital activity with the Central Board of Direct Taxes, with those for registration with the

Security and Exchange Board of India. This will ensure uniformity in norms for registration with both the organisations. I am confident that these initiatives will increase the attractiveness of the Venture Capital Scheme and induce high net-worth investors to commit their funds to the 'sunrise' sectors, particularly, the Information Technology Sector.

95. Very recently, the Companies Act, 1956 has been amended to permit transactions relating to buy- back of shares. There is some ambiguity in the interpretation of the law as to whether such transactions would be treated as subject to dividend tax in addition to capital gains tax. In view of this, I propose to amend the law to put it beyond doubt that on buy-back of shares, the shareholders will not be subject to dividend tax, and would only be liable to capital gains tax.

96. Mr. Speaker, Sir, I wish to now turn to another area of special focus in this budget, namely the Housing Sector. In regard to this sector, I propose a comprehensive package of fiscal incentives focussed at:

* the middle class investors wishing to purchase a dwelling unit;
* the promoters of middle income housing projects; and
* the housing finance companies.

97. As the first element of this package, I propose that the interest on a loan for a self-occupied property be exempted from tax up to a ceiling of Rs.75,000, increased from the current ceiling of Rs.30,000. This concession will encourage middle class investors to take loans to purchase modest dwelling units of their own.

98. The second element of this incentive package relates to the scheme for housing projects for enjoying a tax holiday under Section 80IA of the Income Tax Act. The existing provision, inter-alia, requires that the built -up area of dwelling units should not exceed 1000 sq. feet. There have been many representations that in towns other than Mumbai and Delhi, the land cost is relatively less, and therefore, for the same capital expenditure investors can afford to purchase dwelling units of slightly larger areas. In view of this, it has been represented that the ceiling on built -up areas for dwelling units in approved projects be increased from 1000 sq. ft to 1500 sq. ft at all locations except Mumbai and Delhi. I propose to accept this suggestion and make suitable modifications in the law. This amendment in the scheme for treating housing projects as infrastructure will, I believe, also give a significant fillip to construction activities in the smaller towns.

99. For the construction activity to pick up any significant degree of momentum, it has to be ensured that housing finance companies stay financially viable. Currently, such housing finance companies are subject to tax on interest on loans, on accrual basis. In order to lessen the burden on such housing finance companies, I propose to amend the law so that the income of such companies will be taxable on actual basis, rather than accrual basis.

100. A significant number of individuals seeking accommodation in the major cities are the employees of the business sector. I feel that it is necessary to encourage the business sector to invest in housing for their employees so as to add to the net housing stock. In this spirit, I propose to increase the depreciation rate from 20% to 40% on new dwelling units purchased by the business sector for its employees.

101. This entire package of fiscal incentives for the housing construction sector will, I believe, be a powerful force for revival of the entire economy. The construction sector has very strong linkages with several other major sectors, notably steel and cement. A general upsurge in construction activities will not only increase the corpus of housing stock in the country, but will give a substantial fillip to industrial activity.

102. Apprehensions have been expressed in certain quarters regarding the incidence of a high level of Non Performing Assets (NPAs) in some of the banks. I am of the view that the banks should make every effort to clean up their books and to remove any misgivings, which may exist about the transparency of the accounts. To assist in this direction, Mr. Speaker, Sir, I propose to make tax deductible such amounts as are provided by banks as 'doubtful debts' subject to a maximum of 5% of the such aggregate 'doubtful debts', in any one year. This concession will be available for a period of 5 years for such 'doubtful debts' as are identified under the prudential norms prescribed by the Reserve Bank of India.

103. I propose to amend the law so that tax concession will be available to a loanee on interest payment to a co-operative bank on actual basis rather than accrual basis. This proposal will induce the loanees to make timely repayment of their interest liability in order to avail of the tax benefit, and correspondingly, the financial condition of the co-operative banks can be expected to improve.

104. Mr. Speaker, Sir, I now turn to the proposals relating to the Infrastructure and Industry sectors.

* I propose to extend the fiscal incentives by way of the tax holiday under Section 80 IA of the Income Tax Act, to cold chains for agricultural produce.
* The financial condition of most of State Electricity Boards is extremely precarious. Many of the State Electricity Boards wish to remedy the situation by unbundling generation, transmission and distribution activities to separate companies. I propose to treat the activities of transmission and distribution of power, set up after 1.4.1999, as eligible activities for fiscal incentives available to infrastructure units. I am sanguine that this proposal will facilitate the restructuring and rehabilitation of the State Electricity Boards.
* Currently, the tax exemption given under Section 80 IA of the Income Tax Act to the infrastructure sector and other core sectors, has to be availed of within a given maximum period. This given maximum period has come to vary from sector to sector. In order to bring about uniformity, I propose the amendment of the Income Tax Act so as to provide a maximum period of 15 years in which units can avail of the tax concessions offered to infrastructure and other core sector units.
* Mr. Speaker, Sir, I am conscious of the fact that, despite all our announcements, the industrial development in North Eastern Region has not come up to our expectations. To give industrialisation a fillip in this area of the country, I propose a 10 year tax holiday for all industries set up in Growth Centres, Industrial Infrastructure Development Corporations, and for other specified industries, in the North Eastern Region. I would urge the industrial entrepreneurs from this part of the country to seize the

opportunity and set up modern, high value added manufacturing units in the region.

105. The Indian entertainment industry, which includes films, music and television software is growing by leaps and bounds. I believe that with our creativity and our talent, India has the potential to become a global media superpower. We have done remarkably well in the field of computer software development and exports, and the same can be achieved in the development and export entertainment industry products, specially films, TV, software and music. With a view to facilitating India becoming a super power in this sector, I am including a number of measures in the budget. My aim is to give similar facilities and tax benefits to this sector as are available to the export of goods and merchandise under section 80HHC.

106. Let me assure you that it would be our endeavour to support the entertainment industry “Dil Se”, and I am sure that no longer would the industry have to ask the government “Hum Apke Hain Kaun”?

107. Mr. Speaker, Sir, we are all conscious of the fact that the Information Technology sector is going to be the sector of the future. The immediate crisis, which is looming over this sector, is connected with the Y2K Problem, which will hit us at the close of the current calendar year. I get the impression that the corporate sector is not adequately seized of the dangers which lie ahead on account of this problem. In these circumstances, to assist the business sector to overcome the Y2K Problem, I propose that all expenditure incurred in making their systems Y2K compliant be allowed as revenue expenditure in the next financial year. I urge the business sector to avail of this concession and make every effort to remedy the defect in their software systems, so that their valuable databases do not spin into chaos.

108. Under the current law, a weighted deduction of 125% of the expenditure made on in-house R&D is available to corporate houses up to 31.3.2000. Representations have been received that this period is too short for any company to plan its R&D programme. I propose to extend the concession for in-house R&D up to 31.3.2005. Further, I propose to extend a similar concession of permitting a weighted deduction of 125% of expenditure for R&D Projects entrusted to research laboratories and universities. In the globalised economy, the future is for those who are in the vanguard of development of technology. In view of this, I would urge the corporate sector to avail of this facility to the fullest extent.

109. In the last few years, the direct tax department has undertaken a concerted drive to extend the national tax base. As a method of identifying potential taxpayers, the “One by Six” scheme was extended to 35 cities in 1998-99. This Scheme has given very satisfying results. Consequent upon the launching of this scheme, the number of tax assessees has risen from 120 lakh to 140 lakh in the period of one year. It is the assessment of the department that there is considerable scope for further registration of tax assessees. In view of the favourable results of the scheme, I now propose to extend this scheme to 19 more cities in the country having a population of more than 5 lakh.

110. Since the last budget, the Income Tax department has undertaken a drive for issue of PAN Numbers to the tax-paying applicants. The response of this scheme

has been overwhelming, and we have received as many as 168 lakh applications. The requisite PAN Numbers have already been issued to 75 lakh taxpayers and we are confident that the remaining applications will be disposed in the next few months.

111. Mr. Speaker, Sir, I will now like to highlight the proposals which are targeted at those sections of society which require Government's special attention. First, I propose that the deduction for medical insurance premia for senior citizens be raised from the current level of Rs.10,000 to Rs.15,000 and tax deduction for treatment of specific diseases be increased to Rs.60,000. Considering the fact that medical and hospitalisation costs have risen and life expectancy has also improved, the general insurance industry intends to increase the upper ceiling of the sum insured under the mediclaim policy from the existing level of Rs.3 lakh to Rs.5 lakh, and the upper age limit for coverage to 80 years from the existing 75 years. Second, I propose that expenditure made in respect of hostel projects for working women be eligible for deduction from taxable income under Section 35AC of the Income-Tax Act. Third, I propose that pension received by the recipients of the different gallantry award winners, and the family pension received by their heirs, be exempted from income tax.

112. Mr. Speaker, Sir, I now submit my last proposal on direct taxes. I face the difficult task of containing the revenue and fiscal deficits on the one hand, and on the other meeting the growing development expenditure. I propose to fulfil this task and also ensure equitable burden sharing. I am making a modest demand only on those sections of our society who have the capacity to pay while exempting low-income earners. With these considerations, I propose to impose an across-the-board surcharge of 10% on Corporate Tax, and also a 10% surcharge on all other categories of assessees. In respect of individuals and Hindu Undivided Families, the applicability of the surcharge is limited to those having total income of Rs.60,000 or more. In effect, this surcharge will mean an increase of a marginal 2% in the 20% slab & 3% in the 30% slab. It would leave the rate in the 10% slab unchanged. This is in the nature of a temporary surcharge. I trust that the House and our citizens will appreciate the circumstances in which I have had to make this proposal.

113. To sum up, Mr. Speaker, Sir, as a result of the various proposals made in this budget on the direct taxes, the estimated revenue in 1999-2000 would be Rs.59,235 crore, including a component of net additional resource mobilisation of Rs.3,100 crore.

114. I now have something to say on behalf of my colleague, the Minister of Communications. Postal Service is highly employment intensive and salary & allowances constitute a major part of the operating expenses of the Postal Department. A revision of tariff for some postal services has, therefore, become unavoidable. However, in the interest of the common man and the role of the postal services in easy dissemination of news and information there will be no change in the tariff for Postcard, Money orders, Book packets containing printed books and Registered newspapers. However, the rate of Printed Postcard is being raised from Rs.1.50 to Rs.2.00, of Competition Postcard from Rs.3.00 to Rs.4.00, of Inland letter from Rs.1.50 to Rs.2.00, of Book pattern and sample packets from Re.1.00 to Rs.2.00 for first 50 grams or part thereof and from Rs.2.00 to Rs.3.00 for every additional 50 grams or

part thereof, and Parcels from Rs.10.00 to Rs.12.00 for a weight not exceeding 500 grams or part thereof and from Rs.10.00 to Rs.15.00 for every additional 500 grams or part thereof. There are also certain other changes, which are explained in the Memorandum circulated along with the budget documents. The changes would take effect from a date to be notified after the Finance Bill is passed. The revisions proposed are estimated to yield additional revenue of about Rs.145 crore in a full year and about Rs.121 crore during 1999-2000. Even this modest increase which is necessary for sustaining postal development, will only partially meet the cost of various services.

115. As a result of the postal tariff revision, total expenditure of the Central Government for the year 1999-2000 would be marginally reduced to Rs.2,83,882 crore while with my tax and other proposals, net revenue receipts and non-debt capital receipts would increase to Rs.2,03,927 crore. The revenue deficit is placed at Rs.54,147 crore, while the fiscal deficit is placed at Rs.79,955 crore. This amounts to 2.7% and 4.0% respectively on the basis of the new series of GDP announced by Central Statistical Organisation and after excluding the payment of the share of small savings collection to State Governments. Based on the old series of GDP and excluding the payment of the share of small savings collection to State Governments, the percentage works out to 3.0% and 4.4% respectively.

116. With the Budget for 1999-2000, we will have set in motion a medium-term strategy for restoring the fiscal health of our economy. This budget proposes to reduce the revenue and fiscal deficits by 0.7% and 0.6% of GDP, respectively. At this rate of reduction, the revenue deficit will be eliminated in 4 years and the fiscal deficit will have declined below 2% of GDP. The budget proposes major reform of our excise taxes. In the medium-term we will move to a single rate and a full-fledged VAT system. Our customs duty structure will be phased down to Asian levels in 5 years. During this period Indian industry will have restructured and become fully competitive in world markets. Our knowledge-based industries will generate lakhs of jobs. The gains from competition and productivity growth will drive our exports to new heights. Over the same period our physical and human infrastructure will be raised close to world class. Above all, the basic needs of all our people for food, shelter, health, education and employment will be met within a decade from now.

117. These achievements will transform India into a genuine economic super power by the year 2020. The twenty-first century belongs to us.

118. In the words of the Prime Minister Shri Atal Behari Vajpayee -

आँखों में वैभव के सपने,
पग में तूफानों की गति हो,
राष्ट्रभक्ति का ज्वार न रुकता,
आए जिस-जिस की हिम्मत हो।।

With dreams of prosperity and marching at a stormy pace, the tide of patriotism will not recede. Let the courageous come forward to join me.

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