SPEECH OF SHRI S.B. CHAVAN, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1989-90*

Highlights

— *Intensive Rural Employment Programme to directly target Rural Poverty*

— *Establishment of National Housing Bank*

— *Introducing Equity-Linked Savings Scheme*

— *New National Savings Certificates to carry an Interest rate of 12 per cent*

— *Simplifying the Pension Procedure*

— *Launching of Jawaharlal Nehru Rojgar Yojana*

Sir, I rise to present the Budget for the year 1989-90. The Budget is an instrument for achieving the basic objectives of planned development which, broadly, are growth, modernization, self-reliance and social justice. In each of these areas, we have made substantial progress. There are clear signs of an acceleration in the growth rate of our economy during the Eighties. The pace of modernization, particularly in industry and infrastructure has increased greatly because of the policies pursued by us for the past few years. The movement towards self-reliance has been maintained by the sustained growth in exports. And most important of all, our commitment to the goals of social justice has been demonstrated in the major initiatives that we have taken in anti-poverty and employment programmes and in the fulfilment of essential needs. These long-term objectives provide the framework within which the Budget for 1989-90 has been formulated.

The Annual Budget has to pursue these long-term objectives within the context of the short-term economic situation. The Economic Survey for the year 1988-89, which was laid on the Table of the House a few

* *Lok Sabha Debate,* 28.2.1989, cc. 490-532.

days ago, deals with the economic situation in some detail. I will only highlight a few key points.

The performance of the Indian economy in the past few years has shown unmistakable features of strength. The first is the resilience of the economy when confronted with the severe disruption caused by drought and floods. Last year, my predecessor, while presenting the Budget, has referred to this and indicated that the gross domestic product would grow perhaps by 1 to 2 per cent. I am happy to inform the House that the latest estimates of economic performance in the drought year of 1987-88 indicate that, despite the drought, GDP grew by 3.60 per cent. This commendable performance in a year of drought has been followed by vigorous growth in the current year and we expect the GDP to grow by 9 per cent or more in real terms. Both the rate of growth of GDP in drought year and the pace of recovery in the post-drought year, are significantly higher than those in earlier periods of drought. I may add that the average growth rate of GDP in the first four years of the Plan will exceed the Plan target of 5 per cent.

The performance in the agricultural sector in these past two years gives grounds for hope. Last year, despite the severe drought and floods, foodgrains production was 138 million ton, only marginally lower than in the previous year, showing that our policies to contain the impact of the drought were successful. This year, foodgrains production is expected to exceed the target of 166 million ton. Oilseeds, cotton and sugar production are expected to reach record levels. The sector continues to demonstrate a high potential for growth.

The growth in output in a period of stress, the careful management of the food economy by the Government, and the special measures taken to boost agricultural production and provide relief to those affected by drought have ensured that inflation, as measured by the Wholesale Price Index, was limited to 10.60 per cent in 1987-88. The rate of inflation in the current year has been under 5 per cent up to the end of January 1989. Government is concerned about the pressure on prices, but it is a matter of some satisfaction that this pressure has been generally lower than in previous droughts. Government remains fully vigilant on this crucial front and are determined to ensure effective containment of inflation.

The second encouraging feature of economic performance in recent years, is the sustained growth of industrial sector and improved performance in the field of infrastructure. For four years in succession, manufacturing output has grown by over 8 per cent per year which is a clear vindication of the industrial policy of the Government. There is a spirit of optimism in industry which is reflected in the generally good corporate performance and buoyant conditions in the capital market. Electricity generation has increased steadily and the plant load factor of thermal plants has gone up from 50.10 per cent in 1984-85 to 56.50 per cent in 1987-88. Targets for capacity creation in the power sector set for the Seventh Plan are expected to be achieved. In the Railways the quantity of freight carried has increased in the first three years of the Seventh Plan by an amount as large as the total increase over the previous 10 years. More important, there has been a steady improvement in productivity over these years. A particularly welcome feature is the improvement in the performance of the basic materials industries. In the first nine months of this year, production of saleable steel by the integrated steel plants rose by 10.1 per cent, of cement by 12 per cent, nitrogenous fertilizers by 26.2 per cent and phosphatic fertilizers by 64.5 per cent when compared with the corresponding period last year.

The performance of Central Public Sector Enterprises has shown improvement. In the first six months of this year the provisional results of 179 operating enterprises show that their net profit rose to Rs. 694.19 crore from Rs. 59.79 crore in the corresponding period of 1987-88.

We are committed to a policy of supporting the growth of our public sector. However, we recognize that some changes are required to ensure a higher level of performance, particularly with regard to resource generation. With a view to granting greater autonomy to public sector enterprises consistent with their accountability, the Government has been signing Memoranda of Understanding with some of the Public Sector Undertakings. The MOU indicates the responsibilities of the enterprise in fulfilling certain physical, financial and social objectives including resource generation, and of the Government, in turn, for supporting the enterprise in fulfilling various objectives and targets set for the enterprise. Eleven Public Sector Undertakings signed MOUs with the Government for the year 1988-89. Seven more Public Sector Undertakings will sign MOUs for the year 1989-90. The Government has constituted a High Level Committee under the Chairmanship of Cabinet Secretary to evaluate the performance of MOU signing companies and their administrative Ministries in fulfilling their obligations under the MOU.

I have referred to the resilience of the economy and the improved growth performance in industry and infrastructure because these are the strengths that will allow us to pursue even more vigorously our basic objectives of raising the living standards of the poor and strengthening the economic independence of our country. But I would be failing in my duty if I do not also draw the attention of the House to certain problem areas.

One area that needs more attention is the stimulation of savings and the containment of the budget deficit. We have always prided ourselves on being a nation with a high savings rate, and our culture has always emphasized the virtues of simple living a frugality. Budgetary policy must reinforce these virtues of thrift both through positive incentives to stimulate savings and through measures to restrain luxury consumption. I will indicate later in the speech the specific measures that we propose to take towards this end.

Equally important, and in some sense more significant is the prudent management of public expenditure. Sometimes, it is assumed that Government expenditure, as commonly understood, is all on the wages and salaries of Government servants and on goods and services purchased by the Government Departments to fulfil their functions. This is far from being the case. In actual fact the direct consumption expenditure of the Central Government on defence and Government Administration is less than one quarter of the total expenditure. A little under one-tenth of the Budget is for the direct capital expenditure of the Central Government. As much as two-thirds of the Budget expenditure really take the form of financial transfers to other spending entities by way of interest, subsidies, grants, loans, etc. In fact, a significant part of what is shown as expenditure in the Budget is only the financial intermediation of funds shown as a capital receipt on the one side and as expenditure in the form of loans or equity investment on the other.

I am drawing attention to the structure of the expenditure side of the Central Budget in order to emphasize that the exercise of due prudence is not merely a matter of economy instructions regarding staff or travel or purchases. That is certainly important. But it is as important, in fact, even more important, to consider other items of expenditure like subsidies, grants and loans, many of which are embedded in specific schemes and programmes. We must ask ourselves whether we are getting value for money from these subsidies, schemes and programmes. In many cases the desired result could be achieved at a lesser cost by better targetting, consolidation of multiple programmes, greater decentralization linked to mobilization of local resources. We will ensure that such an evaluation forms the basis for the schemes programmes that will form part of the Eighth Plan.

The balance of payments is another area of concern. A certain amount of pressure on external payments is unavoidable in a situation where we have urgent needs for investment and modernization which inevitably require expansion of imports. It is for this reason that Government have attached high priority to expanding exports to pay for the imports the economy needs. Our policies in this regard have been successful and in the past two years our exports have increased quite rapidly-over 25 per cent in 1987-88 and 24 to 25 per cent in the first nine months of the current financial year. But at the same time, the import bill has also increased sharply, especially so in the first half of this year. This surge in the import bill is partly due to the foodgrains and edible oil imports necessitated by last year's drought and partly to the sharp increase in the international prices of metals, chemicals and edible oils. Apart from this, our debt repayment liabilities were relatively high. The limited availability of concessional finance has compelled us to increase the share of commercial borrowings, but we have tried to keep these within limits that are manageable. We do not envisage any difficulty in servicing our external debt.

The Indian economy has a great deal of underlying strength. The sustained growth of industrial sector and the investments made in modernization and upgradation will show results in terms of higher exports. This, in fact, is the real answer to the balance of payments problem. I have every hope that the momentum of export growth will be sustained and enhanced. If necessary, we must be prepared to restrain domestic consumption to some extent in certain areas in order to release supplies for export.

We have resisted the temptation to cope with the short-term difficulties in our balance of payments by *ad hoc* import regulation through detailed import licensing. Such a process would be self-defeating as it will disrupt the economy, inhibit exports and weaken our attempts at modernization. The composition of our imports has changed greatly during the eighties. In 1980-81, 65 per cent of our imports consisted of a few bulk commodities like foodgrains, edible oils, fertilizers, petroleum and metals where direct import regulation through foreign exchange allocations is relatively easy. In 1987-88, these bulk commodities accounted for only 33 per cent of our imports. The other imports cover a vast range of raw materials, capital goods, chemicals and industrial components. Direct regulation of these through foreign exchange allocations is difficult and could well lead to delays and inefficiency. Hence, the non-bulk import bill has to be managed through more effective use of indirect instruments.

Later in this speech I will put before you some measures to discourage low priority imports which go towards the consumption of upper income groups. Kit culture based consumerism is not the objective of our industrial and trade policy and must be discouraged.

Industrial policy has an important role to play in stimulating production which can substitute efficiently for imports. Towards this end the

Government will ensure that domestic production of items which are imported in substantial quantity is maximized and will re-examine and remove any restrictions which stand in the way.

Let me now turn to the special thrust areas in this Budget.

Anti-Poverty Programmes

Successive budgets have sought to tackle the basic problems of poverty and unemployment directly, a process which has bean greatly accelerated since 1980-81. In that year, actual expenditure on rural development, social services and food and cloth subsidies amounted to Rs. 1,971 crore in the Central Budget. The greater part of the expenditure in these areas is for directly targeted programmes to improve employment and the earning capacity of the poor and of vulnerable groups like scheduled castes and tribes, and weaker sections, provide them with basic services like education, health-care and water supply, and subsidise some items of essential consumption. In 1988-89, the Budget Estimates provided Rs. 8,652 crore for the same activities.

I have not included in this total the expenditure on agriculture and the fertilizer subsidy which has increased from an actual expenditure of Rs. 1,179 crore in 1980-81 to a Budget provision of Rs. 4,343 crore in 1988-89.

Under the Integrated Rural Development Programme (IRDP) over 25 million families below the poverty line have been assisted to take up income generating activities. The total investment under this programme since the beginning of the Sixth Plan has been over Rs. ten thousand crore, including the term credit provided by the financial institutions.

I am happy to inform the hon'ble members that under the twin programmes of employment generation for the rural poor, *viz.,* National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP), 67 crore man-days of employment were generated during 1987-88 as against the target of 50 crore man-days.

The present strategy of direct attack on rural poverty through the existing major programmes of self-employment and wage-employment will be continued and made more cost effective.

Employment is the most urgent need of our people. Much of the employment growth will come from growth in agriculture and in labour-intensive agro-processing industries and services. However, a direct attack on the problem of unemployment is essential. We therefore, propose to give a special thrust to all programmes of employment generation. It is proposed to merge NREP/RLEGP into a single programme, and to decentralize its implementation. This merged programme will operate throughout the country and will be funded 75 per cent by the Centre.

Poverty and unemployment are intense in certain disadvantaged regions and existing employment programmes fall short of needs. Hence, in addition to the reorganized national programme it is proposed to launch a new intensive rural employment programme which will provide additional funds to selected 120 districts which are backward and suffer from acute unemployment.

In this year when we are celebrating the birth centenary of Pandit Jawaharlal Nehru, the architect of modern India, there is perhaps no better way of remembering him than to intensify our efforts to remove poverty and unemployment. This programme is a further major step in that direction. It will be named after Panditji to reflect the deepest aspiration of our people.

This new programme will allow fuller employment opportunities to at least one member of each family living below the poverty line. The funds for this scheme will be in addition to the provision available to the district under the NREP and RLEGP Programmes. These funds will be merged and locally useful schemes will be taken up to maximize employment opportunities and the creation of productive assets. We hope that the enhancement of the provision for employment through this new scheme will ensure substantial improvement in living standards of the poor and an increase in the productive and socially useful assets in these areas. The details of the programme will be announced later. The provision for this new programme will be Rs. 500 crore in 1989-90. Including this, the provision for employment programmes will be Rs. 1,711 crore in 1989-90. I propose to cover the cost of the new programmes basically by mobilizing additional resources from those who already have substantial incomes and the benefit of gainful employment. I will revert to this later in my speech.

We welcome further efforts in this direction by State Governments. Recently, the Constitution has been amended to rise the upper limit for the profession tax to Rs. 2,500. We urge State Governments to use this enabling provision to mobilize additional resources for expanding employment.

Additional employment will help poor households to raise their standard of living. But in addition a more direct effort at improving the condition of women and children is necessary. I, therefore, propose a new programme for the free distribution of *sarees* to destitute women. As for children, the ongoing Integrated Child Development Services Programme will be greatly expanded to cover 500 more blocks in addition to over 1,700 already covered. This programme is aimed at raising the health, nutrition and educational status of poor children.

The total outlay for rural development, social services and on food and cloth subsidies will be Rs. 9,374 crore in this Budget.

The implementation of anti-poverty and social services programmes takes place largely through State Plans. Many of these programmes are externally assisted. At present 70 per cent of assistance received under externally aided projects is made available to State Governments as additional Central assistance. It is proposed to modify these arrangements to enhance the additional Central assistance made available to the States to 100 per cent of assistance received under externally aided projects in the social services sector, and for programmes which have a direct bearing on poverty alleviation. This decision will make available substantially more resources to the States than under the present arrangements, and will facilitate additional investments by them in these vital sectors. Sectors which are expected to benefit from this decision are Agriculture, Rural Development, Irrigation, Environment, Health, Family Welfare, Nutrition, Women's Development, Education, Housing, Water Supply and Urban Development.

Agriculture

Agriculture is the mainstay of our population and a priority sector in our Plans. Today the incidence of taxes on agricultural outputs and inputs is minimal and, in fact, substantial subsidies are provided both in the Central and State Budgets.

As I mentioned earlier, Plan and non-Plan expenditure on agriculture and the fertilizer subsidy has gone up sharply since 1980-81. This year also provision is being stepped up and will reach a level of Rs. 5,173 crore.

Credit is a major input for agricultural production. In order to increase the flow of credit to agriculture, the target for direct finance to agriculture by Public Sector banks, which was raised last year from 16 per cent to 17 per cent of their total outstanding advances is being further raised to 18 per cent to be achieved by the end of 1989-90. With this change the total credit to be made available to agriculture by commercial banks, Regional Rural Banks and Cooperative Banks will increase by over Rs. 4,000 crore in 1989-90. Hon'ble members are aware that the rate of interest on crop loans upto Rs. 15,000 was reduced last year and the reduction varied between 5.50 per cent and 10.50 per cent. With a view to extending the scope of relief, the Reserve Bank of India is today issuing instructions reducing the rate of interest charged on crop loans between Rs. 15,000 and Rs. 25,000 to 12 per cent from the existing maximum rate of 14 per cent.

One area of concern is the pace of implementation of irrigation projects in the States. In addition, the gap between the potential created and utilization of irrigation, leaves much to be desired. The decision to provide higher additionality for external assistance for agriculture and irrigation which I have referred to earlier will add to the funds available for these purposes in State Plans. My hope is that this will help in ensuring better utilization of aid funds and quicker completion of projects.

The rapid growth in incomes in our rural economy will require not merely higher production but also diversification of crops, better post-harvest technology, processing of agricultural products into higher value products, etc.

The new Ministry of Food Processing Industries, the first of its kind in the developing countries, was established in July 1988 to provide for dynamic relationship between the farmer and industry so that there is better utilization of agricultural products, greater addition of value to rural produce, generation of massive employment in rural areas, enhancement of the net level of rural incomes and induction of modern technology in the processing of food. Another objective of the Ministry is to promote utilization of the large scale wastages which take place in the pre and post-harvest handling of fruits and vegetables, thereby improving the economic utilization of food produced as well as enhancing the nutritional inputs available to the people. Later in my speech I will indicate some fiscal incentives to provide a greater stimulus to these industries.

Housing

The Government attaches very high priority to housing. It is an activity that meets a very essential need and that is capable of generating a very substantial volume of employment. In pursuance of this, the Government has formulated a comprehensive National Housing Policy. In the field of housing finance several new initiatives were taken in 1988-89. The Reserve Bank of India has liberalized the terms and conditions of housing loans. The Life Insurance Corporation has launched a new scheme known as *Bima Niwas Yojana* which will enable policy-holders to receive financial assistance for purchase or construction of flats.

The National Housing Bank has been established and has now become operational. Promotion of a healthy housing finance system and providing adequate finance to the housing sector are the principal functions of the Bank. In formulating its financing policies, the Bank will adopt the motto of the small man first. It has accordingly announced its re-finance scheme in respect of loans given for low income housing of up to 40 square metres. Similarly, in land development and housing projects financed by it, the Bank will ensure that not less than 75 per cent of the plots to be thus developed or houses to be built, will be for those seeking built-up accommodation up to 40 square metres.

The prospect of owning a house is a major incentive for saving. We have, therefore, decided to establish a new scheme called the Home Loan Account Scheme which will be launched by the National Housing Bank in cooperation with scheduled banks. To facilitate participation by all segments of the community especially in rural areas, the minimum contribution to the saving scheme is fixed at Rs. 30 per month or Rs. 360 per annum. The savings will earn interest at 10 per cent per annum. Any individual not owning a house anywhere will be eligible to join the scheme. After saving for a minimum period of five years, a member will be eligible for a loan equal in amount to a multiple of the accumulated savings including interest. Specific efforts will be made to link up the Home Loan Account Scheme with the registration for land or house allotment by public agencies. I will propose certain tax concessions for these savings.

Industrial Development

Let me now turn to the industrial sector. I have referred to the good performance of the industry and infrastructure sector. We believe that the changes with regard to industrial licensing, price and distribution controls and trade policy that we have made over the past few years have paid rich dividends. The underlying theme of these policy changes is to promote both growth and efficiency by stimulating domestic competition, technology acquisition and modernization. Our industrial structure is now very complex. Many segments have reached a certain degree of maturity. In this situation it is possible for us to relax many of our detailed regulations and yet remain in control over the direction of development through a judicious use of fiscal and credit policies. In furtherance of this approach, the Government has decided to decontrol the pricing and distribution of cement and aluminium with immediate effect.

Since the partial decontrol of cement from 28 February 1982, the cement industry has witnessed an impressive growth. The production of cement which was 21.01 million ton in 1981-82 is slated to increase to 43.50 million ton in 1988-89 and 49 million ton in 1989-90. Over this period, the levy obligation has been progressively decreased and a fair price for the levy cement has been given. These policies have led to the stoppage of imports since 1985. In fact, the country is now in a position to export cement. Our long-term strategy is to increase the production to 65 million ton by the end of the Eighth Plan and 87 million ton by the end of the Ninth Plan. At present, the levy obligation works out to less than 20 per cent of the total output of the industry. It has now been decided that all price and distribution controls on the cement industry be removed with effect from 1 March 1989. To ensure the availability of cement at reasonable prices in the remote and hilly regions of the country, a suitable subsidy scheme is being worked out.

With the progressive commissioning of the National Aluminium Company (NALCO), India has made great strides in the production of aluminium metal. After achieving a record production of 278,000 ton in 1987-88, production in 1988-89 is estimated to go up by 30 per cent to about 3,60,000 ton. During 1989-90 aluminium production is likely to increase by another 20 per cent to reach a level of 4,35,000 ton. NALCO is also exporting alumina and some aluminium and will earn about Rs. 200 crore in foreign exchange during 1988-89. India has thus emerged not only self-sufficient in aluminium metal but will generate exportable surplus in the years ahead. In view of this the Government has decided to decontrol the price and distribution of aluminium with effect from 1 March 1989.

The dispersal of industry to backward areas remains a major plank of our industrial policy. The principal barrier to industrial development in backward areas is the lack of infrastructure. Recently, the Government has announced a new approach to this in the form of the Growth Centre Scheme. In the first phase 61 growth centres will be taken up and provided with infrastructure facilities of a high order. I have provided Rs. 20 crore as the Central contribution for this scheme in 1989-90. Plan and, depending on the pace of implementation, this will be enhanced, if necessary.

Let me now turn to the operation of capital markets. A substantial volume of personal savings now flows through the financial instruments traded in this market. In fact, the breadth and depth of our financial structure is an asset that we must use to mobilize savings and channel it into productive directions. Our rural households are showing growing interest in investing in bonds, debentures and shares. However, the provision regarding tax deduction at source is a disincentive. We have already raised the limit below which there will be no tax deduction at source to Rs. 2,500 for dividends. I propose to do the same for interest payments on bonds and debentures.

The flow of savings into the Capital Market is directed very much to fixed interest bonds and debentures. However, industrial development also requires risk capital in the form of equity. In order to stimulate the flow of personal savings into equity, the Government intends to introduce an Equity-Linked Savings Scheme. The Scheme will operate through Unit Trust of India and recognized Mutual Funds and investments will be eligible for tax deductions on the basis of net annual additions to such savings. Details of the Scheme will be announced shortly.

The dynamism shown by the industrial sectors is to a certain extent the result of our effort to stimulate competition. However, as the industrial environment becomes more competitive, we will need effective measure for coping with the problems of industrial sickness. Some arrangements are in place under the Sick Industrial Companies (Special Provisions) Act, 1985. However, it is necessary that we take steps before this stage of sickness is reached to encourage and stimulate potentially sick units to rehabilitate themselves. In order to do this, the Government intends to work out an excise relief scheme for weak units to provide them with a proportion of their excise payments as part of a diversification, modernization or rehabilitation package approved by designated financial institutions.

Other Areas

Let me now turn to couple of other areas where I propose some changes.

The Government has been examining the utility of the Gold Control Act to see whether it has served its purpose or not and whether it requires any modification. In the light of this examination the Government proposes to modify the Gold Control Act with a view to keeping a measure of control over primary gold only. This is expected to benefit hundreds of thousands of goldsmiths and artisans who will be able to freely conduct their age-old traditional profession and provide better service to the customers in terms of quality, purity and price. Further this will lead to a boost in the export of gold jewellery which has been stagnant. The details will be worked out and necessary legislation will be introduced soon.

I have referred to the need to give a stimulus to savings and have already referred to two measures directed towards this end—the Home Loan Account Scheme and the Equity Linked Savings Scheme. Several initiatives in the area of small savings have been taken in the recent years. I am happy to report to the House that the *Indira Vikas Patra*, introduced in 1986 and the *Kisan Vikas Patra* introduced in 1988 are attracting a substantial volume of savings. These two savings instruments do not carry any tax concessions. I propose to introduce a new National Savings Certificate Series VIII which will carry an interest rate of 12 per cent and will be eligible for tax concessions under Section 80C but not under Section 80L. The existing National Savings Certificates Series VI and VII will be discontinued. This is part of the process of rationalisation of savings incentives.

I am conscious of the need to protect the saving of workers in the provident fund and their right to gratuity. The Employees Provident Fund Act has been modified to raise the minimum contribution to 8.33 per cent and this enhanced contribution has taken effect from 1 August 1988. The Payment of Gratuity Act has been amended to provide for compulsory insurance of gratuity liabilities or the setting up of a gratuity fund under income-tax rules where the pattern of investment will be as prescribed by the Government from time to time. It is proposed to implement these provisions soon after framing necessary rules.

As the hon'ble members are aware, this Government has, in the recent past, taken various measures to help pensioners. The Government is keen to ensure that pension and pensionary benefits are sanctioned and paid promptly and procedures for disbursement simplified. Towards this end, the Government has decided to further simplify the procedure of pension payment to civil pensioners who draw their pension from banks. The proposed simplification envisages that the two intermediary agencies of Accountants General and District Treasuries will not be involved in this work which will be handled by a new Office of Chief Controller of Accounts (Pensions) in the Ministry of Finance. The entire work of pension payment and accounting thereof will be computerised. The new system is proposed to be introduced during 1989-90.

I also propose some fiscal relief on family pensions and a new savings scheme for retiring Government employees with certain tax concessions which I will revert to later.

Our freedom fighters have made great sacrifices in our struggle for independence. In this year when we are celebrating the birth centenary of one of the greatest leaders of this struggle, it is but appropriate that we raise the pension for freedom fighters to Rs. 750 as a mark of the nation's gratitude.

I shall now turn to the Revised Estimates for 1988-89 and the Budget Estimates for 1989-90.

Revised Estimates 1988-89

Since the presentation of the Budget for the current year, additional provisions have become necessary for certain inevitable increases in expenditure. Budget support for Central Plan has to be increased by Rs. 771 crore. The increases mainly relate to settlement of claims arising out of crop insurance scheme, subsidy for setting up of industries in backward areas, strengthening of equity base of Power Finance Corporation, payment to shipping companies to meet commitments made by the erstwhile Shipping Development Fund Committee and passing on to financial institutions Rupees equivalent of external credits extended to them.

Central assistance for State and U.T. Plans is expected to be Rs. 421 crore higher mainly due to special assistance that has to be provided to Punjab for financing its Plan outlay.

On the non-Plan side an additional provision of Rs. 300 crore is required for export promotion and market development. Subsidy on indigenous fertilizer will also be higher by Rs. 250 crore. A marginal in crease of Rs. 200 crore has been made in defense expenditure. An additional provision of Rs. 497 crore will be required for defence pensions on the basis of actual claims arising out of revision of defence pension rates. Grant assistance to States affected by floods has to be increased by Rs. 100 crore. Provision of certain facilities in Punjab necessitated by security considerations has cost Rs. 71 crore.

There have been other increases as well. All these would have resulted in a much higher order of increase in non-Plan expenditure and in deficit financing. Government have taken a number of measures to contain the increase in expenditure and improve receipts.

Ministries and Departments were instructed to locate savings to meet to the maximum extent possible the increases in expenditure including the liability for additional instalments of dearness allowance and bonus sanctioned to Government employees during the year. The economy instructions issued last year were continued this year also. As a result of these measures, the increase in non-Plan expenditure has been contained.

Gross tax revenue is expected to yield Rs. 776 crore more. The improvement is mainly in Union Excise duties, Customs duties and Corporation Tax. Under non-Tax Revenue the profit on imported edible oils is expected to show a sharp reduction owing to an increase in international prices. Capital receipts are expected to show significant improvement. Total receipts of Government are now estimated at Rs. 67,843 crore are against Rs. 66,076 crore in the Budget Estimates. Total expenditure is estimated at Rs. 75,783 crore as against the Budget Estimate of Rs. 73,560 crore. The overall deficit for the year is now estimated at Rs. 7,940 crore. Thus, in spite of the large additional burden thrown on the budget and the various concessions given, it has been ensured that overall deficit does not increase substantially.

Budget Estimates 1989-90

Next year being the last year of the Seventh Five-Year Plan period every effort has been made to ensure that maximum resources are made available for development. Budgetary support for Central Plan including special additional provision of Rs. 500 crore for new economic programmes is placed at Rs. 16,964 crore. Internal and extra budgetary resources for Central Plan are estimated at Rs. 17,482 crore. The total Central Plan outlay for 1989-90 will thus be Rs. 34,446 crore against the current year's approved outlay of Rs. 28,715 crore showing a step up of nearly 20 per cent.

Hon'ble Members will be happy to note that in real terms the actual outlay in the Central Sector for the five years would be around 115 per cent of the original Seventh Plan outlay.

The Central Plan for 1989-90 places a great deal of emphasis on agriculture, rural development and related areas, a new strategy for agriculture planning has been developed on the basis of different agro-climatic regions. The provisions for agriculture and irrigation in the Central Plan has been stepped upto Rs. 1,408 crore. I also propose allocation of Rs. 495 crore for the Department of Fertilizers.

The programmes of rural development are central to our Plan strategy. Inclusive of the provision for the new programme, the provision in the Central Plan for this sector has been stepped up by 28.4 per cent. For promoting rural industrialization, the reorganized Khadi and Village Industries Commission has planned to expand and diversify its activities. Besides identifying 33 new industries for promotion in the current year, 41 other industries will be taken up for development in the future in a phased manner.

The provision for social services in the Central Plan is being stepped up to Rs. 3,396 crore. The main emphasis in the social welfare programme in the Annual Plan 1989-90 will be on development of services for early childhood care, women's development, prevention of disabilities and rehabilitation of the affected persons. In order to meet these goals, a large expansion is envisaged in programmes like Integrated Child Development Service (ICDS), income generating schemes for poor and destitute women, education, training and economic rehabilitation of disabled persons. Adequate attention will be given to creating awareness regarding the right of women, campaign against the atrocities inflicted on them and also against the social evils like child marriage, dowry, drug abuse, etc.

The Seventh Plan has been characterized by a special thrust towards human resources development. The approach, strategies and major thrust areas included in the Seventh Five-Year Plan and the priority programmes of the National Policy on Education 1986, taken up in 1987-88 are being continued. Emphasis is given on universalisation of elementary education, eradication of adult illiteracy, vocationalisation of secondary education, improvement and consolidation of quality and standards of higher education and modernization and removal of obsolescence in technical education.

In order to maintain the tempo of growth that has been attained in recent years, it is necessary that we continue to invest in the expansion and modernization of our infrastructure sectors. Hence, the outlays in the Central Plan for power development have been raised by 38.60 per cent, for railways by 15.6 per cent and for telecommunications by 56.6 per cent.

Major public sector projects in the industrial sector included in the Seventh Plan have either been completed or are expected to be completed in the last year of the Plan. These include the expansion of Bhilai Steel Plant, Stage I of Visakhapatnam Steel Plant, the Aluminium Complex of NALCO in Orissa, the gas based fertilizer plants at Bijaipur, Aonla, Namrup III, the Caprolactam project at Udyog Mandal, captive power plants at Durgapur, Barauni, Panipat and Bhatinda and the Maharashtra Gas Cracker Complex.

In the industry sector adequate outlays have been provided in the Annual Plan 1989-90 for productive schemes and projects of on-going nature which would be commissioned during the last year of the Seventh Plan, as well as for initiating the necessary action for the Eighth Plan.

Central assistance for the Plan of State and Union territory Governments is placed at Rs. 10,850 crore against the current year's Budget level of Rs. 9,714 crore. Total expenditure from Central Budget on Plan account will be Rs. 27,814 crore next year as against current year's Budget level of Rs. 25,714 crore.

Government is aware of the extremely difficult circumstances in which our brave armed forces have been carrying out their arduous responsibilities of defending our country. The whole nation owes its grateful thanks to them for ensuring the security of our border and for bringing credit to our country when called upon to help other friendly countries in their hour of need. At the same time, all of us recognize that there is continuing need for implementing measures for greater cost effectiveness in our expenditure on defence. My colleagues in the Ministry of Defence have already introduced a number of measures to improve the cost effectiveness of such expenditure. Keeping this in view I have provided for a sum of Rs. 13,000 crore for Defence during the coming year. I assure the House that Government will not falter in ensuring the highest level of defence preparedness.

Provision for food, fertilizer and export promotion subsidies next year is Rs. 7,472 crore against Rs. 6,841 crore in the current year's Revised Estimates. Interest charges next year are estimated at Rs. 17,000 crore against Rs. 14,150 crore in the current year. Grants to States as result of the recommendations of the Ninth Finance Commission are estimated to be Rs. 612 crore higher than in the current year. An additional provision of Rs. 152 crore has been made next year for expenses in connection with the General Elections. The deficit of Department of Posts is estimated to be Rs. 97 crore higher than in the current year.

Every effort has been made to contain the growth of non-Plan expenditure and only the barest minimum provisions have been allowed. Total non-Plan expenditure in 1989-90 is estimated at Rs. 54,347 crore against Rs. 48,877 crore in the Revised Estimates for the current year.

Coming to Receipts, Gross Tax Revenue at the existing rate of taxation is estimated at Rs. 49,588 crore. After payment of Rs. 12,054 crore to States as their share of taxes and Rs. 50 crore to local bodies in Union territories as assignment of revenue, the net accrual to Centre is estimated at Rs. 37,484 crore against Rs. 32,652 crore in the current year. Market borrowings are placed at Rs. 7,400 crore against Rs. 7,250 crore in the current year. External assistance net of repayment is placed at Rs. 3,722 crore against Rs. 3,216 crore in the current year. Taking into account the variations in other receipts and expenditure, the overall deficit for next year at existing rates of taxation is estimated at Rs. 8,240 crore.

I now turn my tax proposals for 1989-90.

For most people taxation is vexation. I will only say that we raise resources through taxation to fulfil a larger common purpose and seek to return to people a benefit which is greater than the cost they bear.

My Budget proposals are guided by the objectives and economic perspectives I have outlined earlier. More specifically the proposals are oriented to the following ends:

— Promoting productive employment,

— Protecting the consumption standards of the poor,

— Discouraging non-essential luxury consumption particularly when it is import intensive,

— Providing some relief to middle income tax-payers,

— Maintaining the tempo of industrial modernization and growth,

— Containing the budget deficit for 1989-90.

Now I turn to the budget proposals regarding the Direct taxes.

The hon'ble members are aware of the high priority the Government attaches to creation of productive employment. As I mentioned earlier, a number of schemes are already being implemented to generate employment in rural areas to benefit the vulnerable sections of our society. However, we feel that a time has come for taking initiative to make a substantial dent on the problem of unemployment. To this end, as already stated Government proposes to introduce a new intensive rural employment programme, to be called Jawaharlal Nehru Rojgar Yojana. In order to mobilise resources for this programme, I propose to levy a surcharge at the rate of 8 per cent, on resident tax-payers with incomes above Rs. 50,000 from assessment year 1990-91. I am sure that those who are privileged to have employment in a society, where there are so many who are deprived, will not mind this sacrifice in the interest of creating employment of those not so fortunate.

The Government has maintained stability in the direct tax rates during the last four years. However, it has often been represented that a 25 per cent tax at the entry point discourages many tax-payers in coming to the tax net voluntarily. Accordingly, it is proposed to reduce the rate of tax for individuals in the entry slab of Rs. 18,000-25,000 from the present rate of 25 per cent to 20 per cent.

This House is aware of the fact that in order to mobilize resources to meet the requirements of the drought in 1987 and its after-effects in 1988, a surcharge on income-tax and wealth tax was levied. I do not propose to continue the Wealth Tax and Income-Tax surcharge from the assessment year 1989-90 and 1990-91 respectively.

The combined effect of the changes that I am proposing with regard to the employment surcharge and the changes in the rate structure will be such that a person with a taxable income of below Rs. 56,000 will pay less tax than at present. The entire burden of additional direct-tax will fall on those with a taxable income above Rs. 56,000 per annum. The revenue effect of this surcharge will be Rs. 500 crores. I have no doubt that the House will welcome this socially progressive measure.

With a view to curbing conspicuous consumption, I propose to enhance the rate of expenditure tax under the Expenditure Tax Act, 1987, as applicable to certain hotels, from 10 per cent to 20 per cent. This will yield an additional Rs. 30 crore.

I now come to some measures for providing relief.

To meet the housing needs of the citizens has always been an important policy objective of the Government. In his Budget Speech for 1987-88, the Prime Minister envisaged a high priority for the housing sector and had announced the decision to set up a National Housing Bank. Necessary legislation in this regard has been passed and the National Housing Bank has became operational. In order to help the National Housing Bank mobilize resources in its nascent stage, I propose to provide that the deposits made in the Home Loan Account Scheme of the National Housing Bank as well as the repayment of housing loan taken from the Bank will qualify for deduction provided under section 80C of the Income-tax Act. The investment will also be exempt from wealth-tax subject to the overall ceiling of Rs. 5 lakh. Further, the tax-payers will now get a tax concession under section 54E on capital gains, if the sale proceeds are invested in the bonds and debentures issued by the National Housing Bank.

Poultry farming is emerging as an important activity for enhancing nutrition and providing employment. I, therefore, propose to provide tax exemption to the income from poultry farming at the rate of 33.33 per cent of such income. This measure should go a long way in encouraging investment in this area.

Retiring Government employees are often on the look out for investment opportunities with a good post-tax return. With this view, it is proposed to set up a deposit scheme in which a retiring employee may invest the whole or part of his retirement benefits for a block period of three years. The interest on this investment will be free from income-tax. Further, this investment will also be exempt from wealth-tax. The present ceiling of exemption of wealth upto Rs. 5 lakh in respect of wealth in certain specified forms will also not apply to such deposits.

As a measure for providing relief to the widows and heirs of deceased employees, I propose to amend the provisions of the Income-tax Act, to provide a standard deduction at the rate of thirty-three and one-third per cent, subject to a maximum of Rs. 12,000 for the recipient of family pension also. Similarly, it is proposed to extend the benefit of deduction of Rs. 15,000, already available to permanently physically handicapped persons, to persons who are mentally retarded.

Hon'ble members are aware that under the Constitution Amendment Act, 1988, the ceiling of tax on professions has been raised from Rs. 250 to Rs. 2,500 per annum with the object of enabling the State Governments to raise additional resources. I hope that the States will take full advantage of this. I propose to provide that this tax be allowed as a deduction in computing the income under 'Salaries'.

Following the announcements made in the budget speech for 1988-89, Government has formulated schemes setting up the Exchange Risk Administration Fund and issued guidelines for venture capital companies/funds which provide assistance to new entrepreneurs. In order to extend fiscal support to these funds, I propose to extend certain tax concessions to them.

Revenue loss, if any, on account of the proposed relief measures is expected to be made up through better compliance and better collection.

By a notification of the President issued on 7 November 1988 the Income-tax Act stands extended to the State of Sikkim from assessment year 1989-90. In view of some operational difficulties, I now propose to extend the Income-tax Act, 1961 to Sikkim only from the assessment year 1990-91. The Wealth-tax Act and the Gift-tax Act have already been extended from 1990-91 assessment year by the Central Government's notification.

I shall now proceed to deal with my proposals relating to indirect taxes.

In formulating these proposals, I have been guided by the imperative need for raising additional resources. In doing so, I have taken care to see that items of mass consumption are not unduly affected and that the burden falls largely on relatively affluent sections of the population.

As the House is aware, problems of evasion of excise duties through undervaluation and related administrative problems have led to specific rather than *ad valorem* duties on a large number of commodities. In fact, of the total excise revenue, about 70 per cent is derived from commodities carrying duties at specific rates. In the case of many commodities which are subject to specific rates of excise duty, the duty incidence is substantially lower than what it was when the specific duties were fixed originally. There has to be a system whereby all specific rates are revised upwards periodically keeping in view price increases. I propose to make a beginning in this regard in this Budget by increasing the existing specific duty rates of a substantial number of commodities by a modest 5 per cent of current rates with suitable rounding off. I, hasten to add that I have taken care to ensure that items of mass consumption are kept outside the purview of the adjustment. The items on which there will be no change in the rates of excise duty include sugar, tea, coffee, petroleum products like kerosene, diesel and motor spirit, *biris*, vegetable oils, vanaspati, cotton yarn and fabrics, jute yarn and fabrics and electric bulbs and fluorescent tubes. Similarly, the existing exemption for newsprint and specified paper intended for use in the printing of textbooks or other books of general interest, remains unaltered.

It is expected that the upward revision of specific rates will yield an additional excise revenue of Rs. 220 crore.

There are some commodities which are charged to excise duty at specific rates and which would call for a higher rate of adjustment than what has been proposed in general. I now come to my proposals in regard to these commodities.

In the case of iron and steel, the specific rates of duty have not been changed significantly for over a decade now. As a revenue raising measure, I propose to raise the rates of duty on these items. The duty on pig iron is proposed to be increased from Rs. 80 to Rs. 200 per ton. On steel items other than stainless steel, such as ingots, billets, bars, rods, etc., presently attracting duty of Rs. 365 per ton, I propose to increase the duty to Rs. 500 per ton. The duty on certain hot rolled flat products such as sheets, strips, etc., is proposed to be raised from Rs. 500 to Rs. 700 per ton. In respect of certain cold rolled flat products such as sheets and strips, the duty is proposed to be raised from Rs. 715 to Rs. 900 per ton.

There are certain assessment disputes in the case of forgings and castings, as the duty rates vary depending upon the classification. As a measure of rationalisation and to prevent such disputes, I propose to levy a uniform rate of duty of Rs. 800 per ton on steel forgings and Rs. 600 per ton on steel castings.

In the case of stainless steel where the duty incidence is rather low, I propose to raise duty on ingots, semi-finished products and hot rolled products from the existing rates to Rs. 1,000 per ton and on certain cold rolled products from Rs. 715 per ton to Rs. 1,500 per ton. Stainless steel castings and forgings will also attract a duty of Rs. 1,500 per ton.

Similar duty adjustments are proposed to be made on other iron and steel items. In the case of dutiable downstream products, MODVAT credit on iron and steel items would continue to be available.

These measures are expected to result in additional excise revenue to the tune of Rs. 150 crore and customs revenue of Rs. 18 crore.

No Finance Minister can resist the temptation of looking to smokers of cigarettes for augmenting excise revenue. I must confess that I, like most of my predecessors, readily submitted to this temptation. Smokers who do not pay any heed to the statutory warning to their health should, I feel, at least contribute more to the health of the national economy. I propose to restructure the duty rates on cigarettes. While generally the duty rates are being raised the extent of increase would be more in the case of filter cigarettes of length about 70 mm. However, non-filter cigarettes of length upto 60 mm will carry a rate of excise duty of Re. 1 per packet of 10. These measures are estimated to yield excise revenue to the tune of Rs. 101 crore.

Having raised the duty structure on cigarettes, I would not like users of *pan masala* to feel aggrieved that they have been let down. I propose to double the excise duty presently being levied on *pan masala* not containing tobacco for the two existing slabs based on value from Rs. 10 and Rs. 20 per kg. to Rs. 20 and Rs. 40 per kg. respectively. Simultaneously, I propose to increase the excise duty on *pan masala* containing tobacco from 25 per cent to 30 per cent. The revenue implication of these measures is Rs. 8 crore.

As the House is aware, molasses is the principal raw material for the manufacture of liquor. In keeping with its end-use, I feel, molasses can bear a high incidence of duty than at present. I accordingly propose to increase the excise duty on molasses from Rs. 60 to Rs. 120 per ton. I propose to increase suitably the credit of money that is presently available when alcohol is used in the manufacture of chemicals. It is estimated that this measure will yield additional excise revenue to the tune of Rs. 11 crore.

I have a couple of proposals relating to travel tax.

At present Foreign Travel Tax is being levied at the rate of Rs. 50 per ticket for travel to neighbouring countries and Rs. 100 per ticket in respect to travel to other countries. These rates have not undergone any change since 1979. I propose to increase the aforesaid rates of tax to Rs. 150 and Rs. 300 respectively.

As the House is aware, Government has invested substantial sums of money in developing our airports and providing infrastructural facilities therein. Keeping this fact in view, the privileged few who can afford to fly within the country should not mind if they are to pay a small extra amount as tax for augmenting revenues. I intend to levy a new tax called Inland Air Travel Tax at 10 per cent of the basic fare. However, I propose to exempt passengers paying air fare in foreign currency. There will also be a provision for exempting deserving special categories of passengers from this tax.

The proposals relating to travel tax will be given effect to from a date to be notified later and are expected to yield additional revenue to the tune of Rs. 85 crore.

Having dealt with those who fly, I now turn to those who drive. Let me deal with my proposals in regard to the automobile sector.

As honourable members are aware, presently there is a concessional rate of excise duty of 25 per cent in respect of fuel efficient cars of engine capacity not exceeding 1000 cc and 30 per cent in respect of such cars of engine capacity exceeding 1000 cc as against the rate of 35 per cent for other cars. I feel fuel efficient cars have established themselves and there is no necessity to continue with the concessional rates any more. I accordingly propose to levy a uniform rate of 35 per cent on all motor cars. This rate will apply to vans and jeeps also. The revenue gain from this measure will be Rs. 100 crore.

Currently the excise duty on two wheelers of engine capacity not exceeding 100 cc is 15 per cent and that on others, 25 per cent. I propose to restructure the excise duty on two wheelers into a four tier regime. The rate of duty on two wheelers upto 50 cc will remain at the present level of 15 per cent. The duty on two wheelers between 50 and 100 cc is being raised from 15 per cent to 20 per cent. There is no change in the rate of excise duty of 25 per cent on two wheelers between 100 and 150 cc. The rate of duty on two wheelers above 150 cc will be 30 per cent. This measure is expected to yield additional revenue of about Rs. 26 crore.

I also propose to give some concessions in customs duties to this sector keeping in view the need to encourage domestic production and hasten the process of indigenisation.

I further propose to prescribe a concessional duty of 40 per cent on machinery imported for the manufacture of fuel injection equipment, which is a vital component for the automobile sector. The same rate would be applicable to components imported for manufacture of fuel injection equipment. The concessional rate would be available only to the units manufacturing under an approved phased manufacturing programme.

The concessions in custom duty to the automotive sector will have a revenue implication of Rs. 19 crore.

I now come to the package of measures relating to the electronics sector. This is one of the fast growing sectors in our economy and is in a position to contribute more to the exchequer. My proposals in regard to this sector are oriented to giving a greater stimulus to the process of indigenisation.

The members of the House are aware that television has offered considerable entertainment to our people. It would be in the fitness of things that television viewers who native such entertainment should contribute more to the resources of Government and thereby to the programmes of national development.

At present, black and white television sets of screen size exceeding 15 cm and upto 36 cm are completely exempted from excise duty. While continuing the exemption for such sets, I propose to increase the excise duty on the picture tube of such sets to Rs. 200 per tube. Black and white television sets of screen size exceeding 36 cm attract excise duty of Rs. 300 per set. I propose to increase this rate to Rs. 500 per set.

As regards colour television sets, the present duty is Rs. 1500 per set of assessable value upto Rs. 5,000 and Rs. 2,000 per set of assessable value more than Rs. 5,000. This duty structure has led to some valuation disputes. Some high value sets have also entered the market. A review of the duty structure on colour television sets is therefore called for. I propose to fix a duty of Rs. 2,250 per set without remote control, Rs. 2,500 per set with remote control and Rs. 4,000 per set having the facility of ‘picture in picture’.

I also propose to fix a uniform rate of 20 per cent on radios, two-in-ones, cassette recorders and musical systems, as against the present rates of 15 per cent or 20 per cent.

I propose to increase the excise duty on computers from 10 per cent to 15 per cent *ad valorem*. At the same time, computers are being taken out of the general schemes of exemption for the small-scale sector.

Presently, specified raw materials and piece parts imported for the manufacture of specified electronic components attract customs duty at the rates of 35 per cent and 50 per cent respectively. While extending concessional duty to a large number of items, I propose to raise these rates to 40 per cent and 60 per cent respectively.

These proposals relating to electronic items estimated to yield additional revenue to the tune of Rs. 158 crore in excise and Rs. 36.5 crore in customs.

I have some concessions in customs duty to announce for the electronics sector. In last year's Budget, a uniform rate of import duty of 100 per cent was provided to a large number of equipment for telecommunication, satellite communication, data communication, television transmission and studio and sound broadcasting. I propose to extend the concession to 35 more specified equipments.

Optical communication cables are essential for telecommunication. In order to encourage the manufacture of such cables in the country, I propose to reduce the import duty on specified raw materials required for their manufacture from the present rates varying from 130 to 300 per cent to the level of 80 per cent.

With a view to encouraging production of high-tech items like large scale integrated circuits, microprocessors and other microelectronic items, 22 items of machinery have been given a concessional import duty of 15 per cent. I propose to extend the concession to five more items of machinery.

The concessions in customs duty to the electronics sector will have a revenue implication of Rs. 33 crore.

I have a package of measures in regard to the customs duty structure for capital goods.

At the time of presenting the 1987 Budget, the Hon'ble Prime Minister had emphasized the importance of the capital goods industry and had stated that it is central to our efforts for achieving self reliance and to promote the growth of this sector. Important steps were initiated that year. The success brought forth by these measures encourages us to continue further along those lines. My first proposal is to extend the duty concession for import of machinery under the technology upgradation schemes for the capital goods industry to four more sectors. These are cutting tools, commercial tool rooms, textile machinery and paper machinery. In addition, for the machinery tool sector, I propose to expand the list of machinery items attracting concessional duty.

I propose to rationalize the import tariff of capital goods. The rate of import duty on general projects and machinery is being reduced from the existing 90 per cent to 80 per cent *ad valorem*. The rate of duty on components which is 15 per cent below the rate applicable to the machinery would get correspondingly reduced.

The next step in this regard would be rationalizing the rate of concessional import duty on specified machinery which presently varies between 25 per cent to 35 per cent. This is being unified and fixed at 40 per cent *ad valorem*. There would, however, be no change in the case of fertilizer projects. In the case of power projects, the increase would be by five percentage points.

The rationale for these changes lies in the desirability of reducing the dispersion in tariff rates as much as possible. In pursuit of this objective, I am introducing an intermediate level of duty of 60 per cent *ad valorem*. This will apply to certain specified items of machinery which are manufactured indigenously such as captive power plants, certain types of generating sets and circular looms for jute industry.

As a measure of facilitating the export thrust sectors to upgrade their technology by importing modern machinery, concessional duties have been prescribed from time to time on machinery for specified thrust sectors. I propose to extend the concession to rubber and canvas footwear sector and to expand the existing list of machinery for textile and sericulture sectors.

These measures relating to capital goods are estimated to result in a loss of customs revenue of about Rs. 117 crore.

As I have mentioned earlier in my speech, pricing and distribution of aluminium is being decontrolled with immediate effect. In this context, I propose to increase the excise duty on aluminium ingots and wire-rods from the existing level of 18 per cent to 20 per cent *ad valorem* plus Rs. 2,500 per ton. Since MODVAT credit in regard to primary aluminium would be available for dutiable downstream products, I propose to increase the duty on most of such products by ten percentage points. It is also proposed to exempt aluminium ingots from basic and auxiliary duties of customs. The basic customs duty on aluminium scrap is being reduced from 30 per cent to 15 per cent. The net revenue yield from these measures will be Rs. 50 crore.

There are certain commodities which attract a low rate of customs duty at present and these call for a review. I propose to raise the import duty on wood pulp, waste paper, low ash coal, raw petroleum coke and certain chemicals by five percentage points over the existing rates. On benzene, I propose to raise the basic customs duty from the existing nil rate of 25 per cent *ad valorem*. The revenue gain from these proposals will be Rs. 39 crore.

I propose to increase the basic customs duty on glazed newsprint from Rs. 550 per ton to 30 per cent *ad valorem*. This will yield additional revenue of about Rs. 12 crore.

Watches and components thereof presently bear a low rate of excise duty of 2 per cent *ad valorem*. This rate was fixed in order to encourage indigenous production of watches. This measure has been successful. I think the time has come when the watch industry can bear a higher duty. I propose to increase the rate of 5 per cent *ad valorem*. This will result in a revenue gain of Rs. 5 crore.

I shall now deal with my package of proposals in regard to the agro-based and related industries.

As honourable members are aware, the growth of food processing and packaging industry is essential for increasing value addition of agricultural produce and raising incomes of farmers. As part of Budget proposals last year, excise duty on parts and accessories going into the installation of cold storage plants for preserving foodstuff was reduced from 40 per cent to 15 per cent. I now propose to extend the concessional rate of 15 per cent to parts of refrigerating appliances and machinery as well as compressors intended to be used in refrigerated vans meant for transport of food and dairy products.

At present, 34 specified items of food processing and packaging machinery enjoy a concessional import duty of 35 per cent. I propose to extend the concessional rate to a few more specified items of machinery such as transport, refrigeration unit, and machinery for egg processing. The concessional rate of duty as stated earlier is now being fixed at 40 per cent.

I propose to reduce the excise duty on skimmed milk powder and condensed milk from 15 per cent to 10 per cent. Simultaneously the exemption from excise duty on skimmed milk powder in one kilogram pack is being withdrawn. The excise duty on certain other food preparations such as preparations of fish, meat, tapioca and sago in unit containers is being reduced from 15 per cent to 10 per cent. *Namkeens* such as *bhujiyas* and *chabena* and specified ready-to-cook mixes such as *idli*-mix and *vada*-mix are being fully exempted from excise duty.

A concessional import duty of 61 per cent has been provided for certain specified items of machinery for marine food sector. I propose to further reduce the rate to 40 per cent and enlarge the list by adding three more items of machinery for fishing. In addition, I propose to reduce the import duty on machinery for the manufacture of fish nets from 90 per cent to 40 per cent.

One of the proposals contained in the New Policy on Seed Development announced in September 1988 relates to the reduction of import duty on machines and equipments used for seed production and processing and quality control for which technology upgradation is necessary. I propose to prescribe a concessional import duty of 40 per cent on 12 specified items of such machinery and equipments.

In order to help improve the quality of poultry feed, I propose to reduce the import duty on two specified amino acids from the present level of 147.25 per cent to 70 per cent.

To give relief to the jute industry, I propose to exempt from excise duty, jute yarn supplied to a registered handloom cooperative society or an organization set up or approved by the Government. This exemption will be available for the purpose of development of handlooms for manufacture of fabrics other than those used for jute sacks. I also propose to extend this exemption to units set up by the Khadi and Village Industries Commission and Boards.

Paper and paperboard containing not less than 75 per cent by weight of bagasse is totally exempted from excise duty. In order to further encourage the use of unconventional raw materials for the manufacture of paper and thus reduce the pressure on forest based raw materials, I propose to extend full excise duty concession to those varieties of paper board which contain not less than 75 per cent of pulp made from raw jute or mesta. This measure may incidentally help the jute industry.

For helping the farmers to get better prices for their produce, I propose to increase the basic customs duty on cinnamon from Rs. 20 per kg to 90 per cent *ad valorem plus* Rs. 20 per kg and that on cloves from Rs. 60 to Rs. 95 per kg.

To give a major thrust to marketing of products of the khadi and village industries sector, I propose to make an exception in regard to availability of small scale concession where the products bear the brandname of Khadi and Village Industries Commission and Boards. The existing concession for products of village industry marketed by or with the assistance of the Khadi and Village Industries Commission is being extended to furniture and ceramic products.

These measures relating to agrobased and related industries are estimated to result in a revenue loss of Rs. 5 crore of customs duty and Rs. 8 crore of excise duty.

On a review of the excise duty structure for the match industry, I feel there is need for revising the duty rates for the different sectors of the industry. Currently, excise duty is being levied on the mechanized, semi-mechanized, non-mechanized and cottage sectors of the industry at Rs. 5.85, Rs. 4.15, Rs. 3.50 and Rs. 160 per gross of boxes respectively. I propose to bring down the aforementioned rates to Rs. 4.50, Rs. 3.00, Rs. 2.50 and Rs. 1.10 per gross. Simultaneously, I propose to increase the excise duty on potassium chlorate, an essential raw material for the manufacture of matches, from 15 per cent *ad valorem* which works out to roughly Rs. 2 per kilogram to Rs. 5 per kilogram. The duty rates will be converted into metric system and specified as applicable to 100 boxes with effect from 1 June 1989. These proposals involve a revenue sacrifice of Rs. 11 crore excise duties.

In view of the shortage of cotton due to drought, as part of the Budget proposals last year, a concessional duty of Rs. 5.22 per kg. was prescribed on viscose staple fibre for blending with cotton. However, with the increased availability of cotton this year, there is no further necessity to continue the concession. I propose to withdraw the concessional rate and fix a uniform rate of Rs. 8.35 per kg. on viscose staple fibre. The revenue gain from this measure will be of the order of Rs. 14 crore.

I propose to exempt raw wool to be imported by Khadi and Village Industries Commission and State Khadi and Village Industries Boards from the whole of the duty.

The customs duty on raw silk is being reduced from 75 per cent to 50 per cent *ad valorem*.

Dyestuffs are important inputs for the processing of textiles. This commodity carries at present an excise duty of 35 per cent. I propose to reduce the excise duty on synthetic organic dyestuffs from 35 per cent to 30 per cent. This proposal which will benefit this textile related industry involves a revenue loss of Rs. 19 crore.

Synthetic shoddy blankets of value upto Rs. 60 per square metre are being exempted from the whole of excise duty.

I propose to give certain concessions in customs duty to specified life saving drugs and drug intermediates. The proposals in this regard are likely to result in a revenue loss of about Rs. 7 crore.

In order to give relief to cement units using vertical shaft kiln, I propose to reduce the excise duty on cement manufactured by such units by Rs. 100 per ton from the general effective rate. This involves a revenue loss of Rs. 10 crore.

As a step towards energy conservation, I propose to reduce the excise duty on high pressure sodium vapour lamps from 15 per cent to

10 per cent. Simultaneously, I propose to prescribe a concessional import duty of 50 per cent on four specified inputs for the manufacture of such lamps. These measures are estimated to result in revenue loss of Rs. 2.5 crore in excise revenues and Rs. 5 crore in customs revenue.

There have been representations that the film industry has been adversely hit by video piracy. I accordingly propose to restructure the excise duty rates on feature films. As per the revised proposal the first 30 prints of each feature film would be eligible for complete exemption from excise duty as against the first 12 prints at present. The rates of duty on subsequent prints are being reduced.

Some of the organizations engaged in the rehabilitation of physically or mentally handicapped persons undertake manufacturing activity for providing employment to such persons. Presently, such organizations are eligible for excise duty exemption only to the extent available for specified goods manufactured in the small scale sector. I propose to fully exempt such goods produced by these organizations.

In order to promote safety in chemical industry and environmental control, I propose to extend concessional import duty of 40 per cent on 25 specified equipments such as monitoring instruments for toxic and hazardous chemicals or gases, special incinerating systems etc.

Paraxylene is an important raw material used in the manufacture of DMT and PTA which in turn are used by the polyester industry. Keeping in view the recent trends in the international price of paraxylene, I propose to reduce the import duty on paraxylene from 120 per cent to 90 per cent.

There are a few rationalisation and anti-evasion measures relating to customs and excise duties.

Presently, petro-chemical factories are eligible for certain concessions including concessions excise duty on naphtha, when they are declared as refineries. The present scheme has been reviewed and I propose to make available the concessions with certain modifications, without linking the concessions to the declaration of a factory as a refinery. Simultaneously, I propose to raise the concessional rate of duty on raw naphtha from Rs. 30 to Rs. 60 per kl. The orders declaring certain factories as refineries are being rescinded.

Small scale units are allowed complete exemption from excise duty upto a value of Rs. 30 lakh in case they manufacture goods falling under more than one heading of the Central Excise Tariff. I propose to restructure the scheme so that the exemption upto Rs. 30 lakh is available only if the goods falling under more than one Chapter of the Central Excise Tariff are manufactured.

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

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

Apart from the above proposals, I have proposed certain amendments in the Finance Bill seeking to effect changes in the excise and customs tariffs. These amendments are merely 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.

In this aggregate, the proposals in regard to changes in the customs and excise duties outlined above are likely to yield additional revenue of Rs. 863.20 crore from excise duties and Rs. 117.06 crore from customs duties. The concessions and reliefs announced aggregate to Rs. 237.12 crore on the customs side and Rs. 71.02 crore on the excise duties would thus be Rs. 792.18 crore. On the customs side, there is a net revenue loss of Rs. 120.06 crore. Besides, the changes in the Foreign Travel Tax and the levy of Inland travel Tax would yield an additional revenue of Rs. 85 crore. Thus, out of the total net additional yield of Rs. 757.12 crore from indirect taxes, the Centre's share would be Rs. 373.13 crore and that of States Rs. 383.99 crore.

The Medical and Toilet Preparations Act is an enactment under Article 268 of the Constitution in terms of which duties are levied by the Union but collected and appropriated by the States. There has been no change in the rates of duties leviable on medicinal and toilet preparations containing alcohol, narcotics and narcotic drugs since 1982. There have been requests from the State Governments that the rates should be reviewed and revised suitably. While I do not propose to make any changes in the *ad valorem* rates, I propose to increase the specific rates by about 50 per cent of the existing rates. The details of the changes made in the schedule are given in the Explanatory Memorandum to the Finance Bill.

Copies of notifications giving effect to the changes in customs and excise duties effective from 1 March 1989 will be laid on the Table of the House in due course.

The modifications proposed by me in direct and indirect taxes are expected to yield Rs. 903 crore to the Centre. Taking this into account the year and deficit for the next year is estimated at Rs. 7,337 crore.

Sir, the proposals I have just presented mark, in their totality, a qualitatively new stage in our continuing quest for social justice. The new employment programme, which will expand over time, is the people's own weapon in their struggle to usher in a society liberated from the shackles of poverty. The budget proposals also reflect Government's strong commitment to self-reliance. We are determined to vigorously implement strategies for export promotion, for modernization of Indian industry and for efficient import substitution. Within these basic policy parameters, every effort will be made to contain imports to reasonable levels. The journey along the path of development is hard and long. It involves sacrifices for future growth and prosperity. The answer of these Budget proposals is clear and categorical. It is the relatively affluent who will have to share a larger burden so that the weaker and vulnerable sections of society may share in the fruits of growth.

I commend the Budget to the House.