SPEECH OF DR. MANMOHAN SINGH, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1992-93*

Highlights

— *Revamping the Public Distribution System*

— *Move towards Convertibility of the Rupee on Current Account*

— *Proposal to Introduce Gold Bond*

— *Implementation of Recommendations of the Narasimhan Committee Report*

— *Government Control over Capital Issues Lifted*

— *Proposal for a Small Farmers' Agri-Business Consortium*

— *Tax Reform Committee*

— *Proposal for a Presumptive Tax System*

— *Setting up of the National Court of Direct Taxes*

— *Commission for Speedy Settlement of Tax Disputes*

Sir, I rise to present the Budget for 1992-93.

The fiscal year now drawing to a close has been a difficult one by any standards. It has been a year of crisis and of crisis management. It has been a year of great economic challenges and bold new initiatives.

Budget, 1992-93

Total Revenue	**—**	**Rs. 1,14,215 crore**
Total Expenditure	**—**	**Rs. 1,19,087 crore**
Deficit	**—**	**Rs. 4,872 crore**

* *Lok Sabha Debate,* 29.2.1992, cc. 10-57.

Honourable members would recall that when the new Government assumed office eight months ago, we inherited an economy on the verge of collapse. Inflation was accelerating rapidly. The balance of payments was on serious trouble. The foreign exchange reserves were barely enough for two weeks of imports. Foreign commercial banks had stopped lending to India. Non-Resident Indians were withdrawing their deposits. Shortages of foreign exchange had forced a massive import squeeze, which had halted the rapid industrial growth of earlier years and had produced negative growth rates from May 1991 onwards.

This is the grim legacy we inherited.

Our first and immediate challenge was to arrest the slide and restore India's credibility both domestically and in the eyes of the world. To achieve this objective we had to take immediate measures to avert a default in international payments and also take steps to restore macro-economic balance in the economy in the short run, with a view to controlling inflation and reducing the balance of payments deficit to a manageable level. Our medium term objective was to place the economy back on the path of high and sustainable growth.

The new Government took several initiatives in pursuit of these objectives. We took emergency measures to prevent a default in external payments, which would have been highly disruptive. The previous Government had already decided to use a part of the gold held by the Reserve Bank of India to mobilise temporary liquidity abroad. We did not consider it prudent to reserve this decision. But we promised to redeem the gold at the earliest opportunity and we have kept our word. We began the process of restoring macro-economic balance by seeking to reduce the fiscal deficit which had grown very large in the previous year. We also embarked on a medium term programme of structural reform, including new initiatives in trade policy and industrial policy aimed at improving the efficiency, productivity and international competitiveness of Indian industry. Our longer term objective is to evolve a pattern of production which is labour intensive and generates larger employment opportunities in productive higher income jobs, and reduces the disparities in income and wealth between rural and urban areas.

Production was bound to suffer in a year of crisis and this has happened in 1991-92. Agricultural production was below target in the *kharif* season, but prospects for the *rabi* crop look good. Industrial production suffered because of severe import compression and tight credit conditions. However, the infrastructure sectors, which are the foundation on which future industrial growth depends, have done well. Overall, I expect GDP growth in 1991-92 to be around 2.5 per cent. I expect a distinct improvement in 1992-93, and a return to high growth in 1993-94. However, this revival can be achieved only if we persevere unflinchingly with the process of stabilisation and structural economic reform begun in the current year.

Stabilisation and structural adjustment are never painless or quick, especially when we are dealing with imbalances and structural rigidities which have built up over several years. It will take sustained effort, over at least three years, to bring the economy back to a path of rapid and sustainable growth. A firm commitment to austerity, the pursuit of excellence and the promotion of efficiency and productivity for the benefit of the common people has to be an integral part of this effort. Given our limited resources, our people cannot afford to copy the soulless consumerism and the wasteful life styles of the affluent countries of the West. Conspicuous consumption has to be actively discouraged. The virtues of thrift have to be emphasized. The owners of wealth, as Gandhiji used to say, must learn to regard themselves as trustees of society. We cannot postpone structural reform and adjustment, but we must ensure that the burden of adjustment on the poorer and weaker sections of our society is ameliorated to the maximum possible extent. We are travelling through difficult and uncharted terrain, where no action is without attendant risks, and success will not always be immediate. We need patience, perseverance and national cohesion if we are to succeed.

It has been alleged by some people that the reform programme has been dictated by the International Monetary Fund (IMF) and the World Bank. We are founder members of these two institutions and it is our right to borrow from them when we need assistance in support of our programmes. As lenders, they are required to satisfy themselves about our capacity to repay loans and this is where conditionality comes into the picture. All borrowing countries hold discussions with these institutions on the viability of the programmes for which assistance is sought. We have also held such discussions. The extent of conditionality depends on the amount and the naturally type of assistance sought. However, I wish to state categorically that the conditions we have accepted reflect no more than the implementation of the reform programme as outlined in my letters of intent sent to the IMF and the World Bank, and are wholly consistent with our national interests. The bulk of the reform programme is based on the election manifesto of our Party. There is no question of the Government ever compromising our national interests, not to speak of our sovereignty.

Although the full fruit of our policies will take time to materialise, I am happy to report to the House that we have made substantial progress even in this short space of eight months. We have achieved our most immediate objective of restoring India's credibility and pulling the economy back from the slide into financial chaos. Our foreign exchange reserves have been rebuilt to about Rs. 11,000 crore. Non-Resident Indians are no longer withdrawing their deposits. We have successfully concluded arrangements with multi-lateral financing institutions such as the IMF, the World Bank and the Asian Development Bank to obtain quick disbursing funds to support the balance of payments in the current year.

Inflation remains a difficult problem, and one to which we attach the highest priority, because inflation hurts the poor and the fixed income earner most of all. Inflation was accelerating in June 1991, when our Government came to power, and the annual rate of inflation reached a peak of 16.7 per cent in August 1991. Since then, the rate of inflation has come down to about 12 per cent, but I am painfully conscious that this is still far too high. We are determined to bring inflation under control. This is why the Budget for 1991-92 focused on the need for fiscal discipline. I am confident that as we persevere with fiscal discipline in 1992-93, and this we must do if we want to bring prices under control, the rate of inflation will come down substantially in the coming fiscal year.

Our ability to fight inflation has been considerably enhanced by the improvement in our foreign exchange reserves. This has enabled us to relax the restrictions imposed last year on imports, thus ensuring near normal availability of essential imports in the months ahead. This will help production and ease inflationary pressure. The comfortable reserves position has also given the Government greater flexibility to finance additional imports of essential items to deal with shortages and break inflationary expectations.

The Government will remain fully alert and vigilant on the price front and will use the Public Distribution System to counter inflation and in particular to protect the poorer sections of the population from high prices and shortages. The Prime Minister announced on 1 January this year the launching of the revamped Public Distribution System in about 1700 of the most backward blocks of the country. We are determined to ensure that foodgrains and essential commodities reach the poor and the under-priviledged in adequate quantities and at affordable prices.

Next to inflation, our major problem in the short-term is the management of the balance of payments. We have averted collapse and gained some flexibility but a sustained improvement in our external payments position requires much more. Our export earnings have suffered badly this year, mainly because of the disruption of trade with the former

Soviet Union, and also because of recessionary conditions in world markets. As a result, we have not been able to finance our normal import requirements.

There are some who argue that all we need to do to solve our balance of payments problem is to compress our imports. I would like to point out that import compression has already been carried to the extreme and any further compression can only be at the cost of both growth and employment. Imports of non-essential consumer goods should certainly continue to be discouraged. However, we must recognise that the only lasting solution to our balance of payments problem lies not in compressing imports but in a rapid expansion of exports. A growing economy needs a growing volume of imports of fuel, and other industrial inputs and also of capital goods embodying most modern technology. This is not to deny the importance of self-reliance, but self-reliance in today's world of integrated global markets cannot be achieved merely by reducing import dependence and insulating the economy from the world. Following that path will only lead to more import controls and promote inefficiency and corruption. It will perpetuate an environment in which Indian entrepreneurs will not have the flexibility they need to compete with other developing countries in world markets. The resulting inability to export will actually make us more, rather than less, dependent on the outside world. Our vision of a self-reliant economy has to be of an economy which can meet all its import requirements through exports, without undue dependence on artificial external props such as foreign aid. I suggest to this august House that this is precisely the vision of self-reliance as bequeathed to us by Jawaharlal Nehru as elaborated in the Third Five Year Plan, and translated to the realities of today's world.

While introducing the new trade policy last year, Government had indicated that it would be our objective to move towards convertibility of the rupee on the current account. The achievements of convertibility is a sign of economic strength and a movement towards true self-reliance. We are now ready to take the next important step in this direction by introducing a new system of partial convertibility. The new system is designed to provide a powerful boost to our exports as well as to efficient import substitution. It will further reduce the scope for bureaucratic controls which contribute to both inefficiency and corruption. It will also greatly reduce the incentive for illegal transactions in foreign exchange. Under the new system all foreign exchange remittances, whether earned through exports of goods or services or other remittances, will be converted into rupees in the following manner: 40 per cent of the foreign exchange remitted will be converted at the official exchange rate while the remaining 60 per cent will be converted at a market determined rate. The foreign exchange surrendered at official exchange rates will be available to meet the foreign exchange requirements of essential imports such as petroleum and oil products, fertilisers, defence and life saving drugs. All other imports of raw materials, components and also capital goods will be made freely importable on open General Licence but the foreign exchange for these imports will have to be obtained from the market. There will be a specified "negative list" of raw materials, components and capital goods which will continue to be importable only against licences. There will be no change in the import policy for consumer goods which will remain restricted as at present. Foreign exchange required for other payments on private account including travel, debt service payments, dividends, royalties and other remittances will also have to be obtained at the market rate.

The new system will replace the system of Eximscrips. There will be no need to issue Eximscrips for each export transaction as the new system will operate through the banks. Instead of a premium of Eximscrips, exporters will have the benefit of the premium on 60 per cent of their earnings in the foreign exchange market. What is more, the incentive for earning foreign exchange will now be available to remittances from our workers abroad. There is no reason why our workers, who earn foreign exchange by the sweat of their hard labour abroad, should be denied incentives presently given to only exporters of goods and professional services. I salute our workers from Kerala and other States working abroad. What I have announced today is a small token of our appreciation of their magnificent contribution to India's foreign exchange earnings.

With these changes we will have achieved a major simplification of trade policy eliminating licensing and the associated bureaucratic delays and inefficiencies over a wide range of items. We will also have introduced a self-balancing system to manage a large part of the balance of payments. The total volume of imports will be automatically regulated by the available volume of foreign exchange. Scarcity of foreign exchange will be reflected in a premium which will accrue to exporters and to those making remittances thus providing a built-in incentive to increase this flow. The details of the new exchange system are being notified by the Reserve Bank of India. The changes in trade policy are being notified separately by the Commerce Ministry.

One of the reasons why foreign exchange is diverted to illegal channels is the illegal import of gold. It is time we took a bold step to recognise the realities of the situation and legalise the import of gold.

Government proposes to allow returning Indians and NRIs to import 5 kg of gold per passenger with a modest import duty provided the gold as well as the import duty is financed from foreign exchange earned abroad.

Many honourable members of this House have suggested that the Government should introduce a Gold Bond, which would help to mobilise the idle gold resources of ordinary citizens to supplement official reserves. I had indicated in Parliament that this should be considered only when the balance of payments situation improves and adequate confidence has been built in the capacity of the Government to manage the economy. This has now been achieved. Our reserves are large and do not need supplementing, but I see no reason why patriotic citizens should be denied the opportunity to contribute their mite to the development of India's economy. I propose to introduce a scheme under which citizens can obtain a Gold Bond in return for gold. The bond would be for a period of five to seven years and would be liquidated by return of gold, or equivalent value at the option of the holder. It would enjoy a small interest, which will not attract income-tax. The bonds will also be free of wealth tax and gift tax. As an added incentive, holders of such bonds will not be asked any questions about the source of the gold holding. The Reserve Bank of India is preparing a detailed proposal along these lines.

One of the initiatives of the new Industrial Policy is a new approach towards foreign investment, which can play a vital role in upgrading our technology levels, integrating our industry into the global economy and brining in non-debt resources. The Government proposes to actively encourage foreign investment in critical infrastructure sectors where capacities are inadequate and needs for investment are large. A policy to encourage private investment, including foreign investment, in the Power sector has already been announced. Another area which is critical for our future development, and for management of the balance of payments, is the hydro-carbon sector. Government has already announced that joint ventures will be permitted in both exploration and development, including development of existing fields. The Government will welcome proposals for private investment, including foreign investment, in production, refining and marketing of oil and gas, with a view to maximising the growth potential of this crucial areas.

Concern is sometimes expressed that the policy of welcoming foreign investment will hurt Indian industry and may jeopardise our sovereignty. These fears are misplaced. We must not remain permanent captives of a fear of the East India Company, as if nothing has changed in the past

300 years! India as a nation is capable of dealing with foreign investors on its own terms. Indian industry has also come of age, and is now ready to enter a phase where it can both compete with foreign investment, and also cooperate with it. This is the trend all over the world and we cannot afford to be left out. The House can rest assured that we have enough policy instruments at our disposal to ensure that enterprises with foreign equity function in accordance with our national priorities.

The new approach to industrial policy calls for a review of regulations such as the Foreign Exchange Regulation Act, which introduced a great deal of detailed administrative control over companies where the foreign equity exceeded 40 per cent and also on non-resident Indians. The Reserve Bank of India has recently liberalised the procedure by granting general exemption from several of these controls applicable to Indian companies with foreign equity and to non-resident Indians returning to India. There are other restrictions which prevent Indian companies and Indian residents from entering into various types of commercial relations with companies abroad without prior approval. These provisions in my view are out of the line with the needs of today's economy, where Indian businesses will have to deal extensively and with speed with their counterparts abroad, requiring expeditious decision making. The Government proposes to introduce comprehensive amendments to the Foreign Exchange Regulation Act to bring it in line with the requirements of the new policy.

In my Budget speech last year I had referred to the importance of financial sector reform and had announced the establishment of a Committee on the Financial System. The Narasimhan Committee has submitted its report which has been tabled in Parliament. While commending the progress made by the banking system in several directions, the Committee has drawn attention to serious problems posed by the deterioration in the financial health of the system because of low profitability, poor portfolio quality and inadequate provisioning for bad debts. The Committee has made comprehensive recommendations for reform covering all aspects of banking, including the introduction of better capital adequacy norms, better provisioning for bad debts, rationalisation of the provisions for directed lending and the associated interest rate structure. The thrust of the Committee's recommendations is to move to a more efficient and competitive banking system including a larger role for the private sector. Many of the recommendations can be implemented very quickly. Others need further consideration. The Government proposes to implement the recommendations of the Committee in a phased manner.

As a first step in implementing the recommendations of the Narasimhan Committee, the Government has decided to begin a phased reduction in the Statutory Liquidity Ratio (SLR) which at present locks up large quantities of bank funds in relatively low yielding Government securities. Accordingly, the SLR on incremental domestic liabilities of the commercial banks is being reduced from 38.5 per cent to 30 per cent with effect from 1992-93. This reduction is in line with the proposed reduction in the fiscal deficit, which will reduce the Central Government's need to borrow from commercial banks. It will release funds for banks to expand credit to agriculture and industry. The market borrowing of the States will not be affected. Steps are also being taken to develop an active market for Government less dependent on statutory borrowing from the banks in future.

In view of the decline that has already taken place in the rate of inflation, it is possible to provide some relief in the interest rates charged by the Banks on commercial advances. Honourable members will be pleased to know that the Reserve Bank of India is separately notifying a reduction in the floor level of interest rates on commercial advances by one percentage point.

Financial sector reform also includes reform of the capital markets, which will increasingly play a vital role in mobilising and allocating resources from the public. Several initiatives announced in my Budget speech last year have since been implemented. The Securities and Exchange Board of India (SEBI) has now been established on a statutory basis. As we gain experience, additional powers will be given to SEBI to strengthen its capability. The Government has also issued guidelines which will govern the operation of new private sector mutual funds. Government has also decided to give permission to companies with a good track record to issue convertible debentures or equity to investors abroad and to extend to these issues the same tax benefits as are available for Offshore Mutual Funds. This will enable Indian companies to tap the large pool of equity funds available in world capital markets. We will also consider ways of allowing reputable foreign investors, such as pension funds, to invest in our capital markets, with suitable mechanisms to ensure that this does not threaten loss of management control.

The role of the Controller of Capital Issues in the Finance Ministry needs to be reviewed, especially in the context of the emerging industrial and financial scenario. The practice of Government control over capital issues, as well as over pricing of issues, has lost its relevance in the changed world of today. It is, therefore, proposed to do away with Government control over capital issues including premium fixation. Companies will be allowed to approach the market directly provided the issues are in conformity with published guidelines relating to disclosure and other matters related to investor protection. Government proposes to bring necessary legislation to implement this decision.

In presenting the Budget for 1991-92, I had announced the Government's intention to establish a National Renewal Fund with the objective of ensuring that the cost of technological change and modernisation does not fall too heavily on the workers. This Fund was intended to provide a social safety net which would protect the workers from the adverse consequences of technological change. The Government has now established the Fund. The Fund will provide assistance to cover the cost of retraining and redeployment of labour arising as a result of modernisation and restructuring, and also provide compensation to labour affected by restructuring of an industrial unit. Government also proposes to approach multilateral financial institutions to meet part of the requirement for the National Renewal Fund. It is estimated that about Rs. 1,000 crore would be available from the International Development Association to be used for social safety net schemes under the Fund including special schemes for unorganised sector workers. In this context we would work out a scheme to upgrade the technology of handicrafts which employ a very large number of people in the decentralised sector. Honourable members may rest assured that the Government is firmly resolved to protect the interests of labour while dealing with the problems of industrial sickness and structural reforms.

Agriculture is the foundation of our national prosperity and no strategy of economic development can succeed in our country if it does not ensure rapid growth of production and employment in agriculture. Nor can we hope to provide sufficient jobs for our growing rural labour force unless we can transform the economy of our rural areas. This calls for a multi-pronged strategy involving effective implementation of land reforms, large investments in irrigation and drainage, improvement in water management systems, control of land degradation, strengthening of the credit system and improvements in agricultural extension and research. Much of this effort has to be made by the State Governments since Agriculture is a State subject, and it is our hope that State Governments will give these issues the highest priority. The Centre on its part is firmly committed to continued funding and revamping of the various poverty alleviation schemes, which are a major element in our development strategy.

Special attention needs to be paid to supporting innovative ideas for generating income and employment in rural areas through support to various types of agri-business. As an experimental measure, Government proposes to set up a Small Farmers Agri-Business Consortium as an autonomous corporate entity funded by the Reserve Bank of India, NABARD and IDBI. The Consortium will include representation from various Development Boards dealing with individual crops and Public Sector Corporations dealing with agriculture and agro-industries, private sector companies, banks, scientific organisations and farmers' associations. The Consortium will function on the principles of economic efficiency, Environmental soundness and social equity and will organise 12 major projects in 1992-93 in different parts of the country, based on a mix of enterprises with active participation by State Governments and farm families. The programme will be expanded as we gain experience. We must begin a new chapter in our agricultural history where farm enterprises yield not only more food, but more productive jobs and higher income in rural areas.

I now turn to the Revised Estimates for 1991-92. Our major macro-economic objective in 1991-92 was to reduce the fiscal deficit in order to restore macro-economic balance in the economy. I am happy to inform the House that we have succeeded in this objective.

The Budget Estimates for 1991-92 provided for a total expenditure of Rs. 1,13,422 crore. Unlike in the past, when Revised Estimates of expenditure invariably showed substantial increase over Budget Estimates, this year they are marginally lower by Rs. 320 crore. On the revenue side there has been a large shortfall of Rs. 3,760 crore in customs revenue owing to the severe import compression during most of the year, but this has been partially offset by higher realisation from excise duties and income tax so that the shortfall in gross tax revenue is Rs. 1,869 crore. The non-tax revenues and capital receipts are significantly higher. As a result, total receipts are estimated at Rs. 1,06,070 crore which is higher than the Budget Estimates of Rs. 1,05,703 crore.

The Budget deficit in the Revised Estimates for 1991-92 is Rs. 7,032 crore which is lower than the Budget Estimate of Rs. 7,719 crore, and much lower than in 1990-91, when the Budget deficit reached staggering figure of Rs. 11,347 crore. The fiscal deficit, which takes into account all borrowing, is Rs. 37,792 crore in the Revised Estimates. This is almost identical to the figure of Rs. 37,727 crore in the Budget Estimates, and is much lower than Rs. 44,650 crore in 1990-91. With this, we have successfully reduced fiscal deficit from about 8.4 per cent of GDP in 1990-91 to around 6.5 per cent in 1991-92.

The reduction in the deficit was made possible by enforcement of strict discipline on the expenditure side. Certain additional expenditure provisions became necessary after the Budget was presented. The most notable of these was the additional requirement for fertiliser subsidy, consequent on the decision to restrict the price increase from 40 per cent proposed initially to only 30 per cent and also the fact that the rupee cost of imported fertilisers was higher than assumed in the Budget Estimates. As a result, the provision for fertiliser subsidy has been increased from Rs. 4,000 crore in the Budget Estimates to Rs. 4,800 crore in the Revised Estimates. Even this amount does not fully cover the subsidy claims for 1991-92 and some amount will spill over into the next year as is normal commercial practice. A separate provision of Rs. 405 crore has been included in the Revised Estimates for the scheme for supplying fertilisers to small farmers at the pre-revised prices.

I have also had to increase the Budget provision for food subsidy by Rs. 250 crore on account of the delay in increasing issue prices. An extra amount of Rs. 550 crore has also been provided for the export subsidy. This subsidy was abolished on 3 July 1991, but the claims in the pipeline appears to be much more than was originally anticipated. These demands for additional expenditure have, however, been offset by savings located within the sanctioned Budgets of various ministries.

The difficult resource position in 1991-92 had its impact on Plan expenditure. Overall resource constraints forced the Government to restrict Budget support for the Central Plan and the Revised Estimates for this item are 7 per cent less than Budget Estimates. Despite the marginal reduction, efforts were made to ensure that projects of high priority are not affected, and the reduction has been achieved mainly by regulating the release of funds to match the actual progress of schemes on the ground. However, Central assistance for State and Union Territories Plans was stepped up by Rs. 651 crore, mainly on account of larger rupee requirements of externally aided projects.

The House will be happy to note that even though the Central Government's own expenditure in the Revised Estimates is below the Budget Estimates, the total transfer to the States by way of share of taxes, and Central Plan assistance is higher than the Budget Estimates by Rs. 1,683 crore. This more than offsets the shortfall in small savings loans of Rs. 1,365 crore. We have not allowed our fiscal difficulties to come in the way of meeting our obligations to the States in any way.

I now turn to the Budget Estimates for 1992-93. The Eighth Five-Year Plan commences from 1 April 1992 and aims at the objective of achieving near full employment in a period of ten years. The investment requirements of every sector are large, and it is important that Plan allocations should enable implementing agencies to make a good start, especially in the infrastructure sectors. However, we have had to work within the limits imposed by the continuing need to restore macro-economic balance, which is essential if we are to contain inflation and manage the balance of payments. This calls for a further reduction in the fiscal deficit in 1992-93. Larger Plan expenditure can be accommodated within a smaller fiscal deficit if, apart from increasing tax and non-tax revenues, Government's non-Plan expenditure can be contained. I must admit that this has indeed been a daunting task.

Interest charges are the largest single item of non-Plan expenditure and account for Rs. 32,000 crore in the Budget Estimates for 1992-93. This represents an increase of Rs. 4,750 crore over the Revised Estimates for 1991-92, which is larger than the increase in total non-Plan expenditure of Rs. 4,405 crore. This means that in 1991-93 all other items of non-Plan expenditure taken together will be actually lower than in the current year. Honourable members will appreciate that interest charges are a committed expenditure reflecting the cumulative effect of past deficits. This item can be controlled only by reducing the reliance on borrowed funds, and I intend to do this by reducing the fiscal deficit for 1992-93. However, the benefit of this action will be felt only by Finance Ministers presenting the Budget in future. I venture to think that my successors as Finance Minister will be able to sleep far more peacefully than has been my lot thus far.

For the Defence Services I am providing Rs. 17,500 crore, an increase of 7 per cent over the provision of Rs. 16,350 crore in the current year. Combined with some economies and tight expenditure control, I am confident that this allocation will enable our armed forces to fulfil their responsibilities in ensuring the security and defence of the nation.

In the election Manifesto of our Party, we had committed ourselves to find an innovative solution to the long standing demand of Defence pensioners for "One Rank One Pension". An Empowered Committee, under the chairmanship of *Raksha Mantri* and comprising ex-servicemen and some distinguished Members of Parliament representing the major political parties has looked into the issue and its recommendations have been accepted by the Government. Accordingly, Government has sanctioned *ad hoc* increase in the pension rates applicable to Defence personnel. This decision effective from 1 January 1992 will benefit over six lakh Armed Forces pensioners of all ranks, of whom over two lakh are *jawans*, some of whom retired after 1 January 1986. Government has also ordered grant of *ex-gratia* Family Pension to the families of deceased Reservists not in receipt of Family Pension. These benefits will entail an expenditure of over Rs. 120 crores per annum at current rates of dearness relief.

Subsidies are another important component in non-Plan expenditure. Last year, Food, Fertiliser and Export subsidies were the three major subsidies and their rapid growth has been one of the main factors behind the unchecked growth of non-Plan expenditure. We made an important change this year by abolishing export subsidies. However, some subsidy payments still remain in the pipeline, and I am providing 480 crore on this account.

Food subsidy is a part of our system of food security for the poorer and weaker sections of our population and is a basic element in our social policy. I am providing an allocation of Rs. 2,500 crore on this account which should be sufficient for the normal requirements of the system. The revamped Public Distribution System being implemented in 1,700 backward blocks will require an additional allocation of Rs. 250 crore on account of the additional subsidy and also the cost of constructing a larger number of godowns with a capacity of 3 lakh ton. The allocation for these items will be augmented in the course of the year to meet the requirements fully.

This brings me to fertiliser subsidy which has grown into the largest single subsidy in our system. There is no doubt that fertiliser is an essential ingredient for agricultural production, and agricultural development is vital not only for economic growth in general, but also to ensure rising levels of income and employment in rural areas. In 1980-81, the fertiliser subsidy was 12 per cent of the total allocation in the Central and State Plans taken together for Agriculture, Rural Development, Special Area Programme and Irrigation and Flood Control. It increased to 33 per cent in 1991-92. A Parliamentary Committee is currently looking into the whole issue of fertiliser pricing and subsidy including alternatives for restructuring the subsidy. I propose to wait for the report of this Committee and take a view, on this matter later in the year. Taking all factors into account, I am making a provision of Rs. 5,000 crore for fertiliser subsidy in 1992-93.

Other items of non-Plan expenditure have been tightly constrained in the allocations provided to keep the fiscal deficit within manageable levels. I have requested my colleagues in all Ministries to review the expenditure control system in their Ministries to ensure that every possible step is taken to enforce economy so that the provisions being made in the Budget Estimates are not exceeded. As in the last two years, in the Budget Estimates for 1992-93 also, no separate provision is being made for the additional dearness allowance instalments that may become payable in that year. All Ministries will be expected to absorb the additional expenditure on this account within the approved Budget provisions.

With these provisions, the total allocation for non-Plan expenditure stands at Rs. 84,475 crore, higher by Rs. 4,405 crore compared to the Revised Estimates for 1991-92. But then, as I mentioned earlier the increase in interest expenditure alone is Rs. 4,750 crore. Honourable members would appreciate that the large requirements for interest and subsidies make difficult to reduce non-Plan expenditure further and this limits the extent to which the Budget can support Plan expenditure. Nevertheless, I have tried to provide adequately for all the critical areas of Plan expenditure.

Central assistance for the Plan of States and Union Territories is being stepped up from Rs. 14,710 crore in Budget Estimates 1991-92 to Rs. 16,111 crore in 1992-93. This increase of Rs. 1,401 crore coupled with an increase of Rs. 2,237 crore in the States share of taxes, even at the existing levels of taxation, should enable the States to substantially increase the allocations for the various Plan programmes.

The total Central Sector Plan outlay for 1992-93 has been fixed at Rs. 48,407 crore. This is based on budgetary support for the Plan of Rs. 18,501 crore and a contribution of Rs. 29,906 crore from internal and extra-budgetary resources of the various undertakings/enterprises. The internal and extra-budgetary resources fortunately show a sharp increase of 25 per cent over the current year's level and this is critical to achieve the substantial increase in the Plan outlays of the various infrastructure sectors. Thus, the outlay for the Railways stands increased from Rs. 5,325 crore in the current year's Budget Estimates to Rs. 5,700 crore in the next year's Plan; Shipping from Rs. 617 crore to Rs. 1,222 crore; Civil Aviation from Rs. 433 crore to Rs. 1,036 crore; Telecommunications from Rs. 3,203 crore to Rs. 4,500 crore and Fertiliser industry from Rs. 411 crore to Rs. 1,234 crore. The outlay for Power has been fixed at Rs. 6,441 crore and for Petroleum at Rs. 6,054 crore.

The allocation for Rural Development Programmes in the Budget is Rs. 2,610 crore, which is somewhat lower than the Budget Estimates of 1991-92 though it is higher than the Revised Estimates. This, however, presents only part of the total effort we are making in support of the weaker sections in our rural areas. The Government is deeply conscious of its special responsibility to protect the poorer sections of our society, especially in rural areas from the burdens that would otherwise be forced upon them as the economy goes through the process of macro-economic stabilisation and economic restructuring. It is, therefore, proposed to earmark an additional allocation of Rs. 500 crore from the corpus of the National Renewal Fund for employment generation schemes to supplement the normal employment generation through the Jawahar Rozgar Yojana, particularly in those areas where the pressure for such employment is seen to be more than in earlier years. The additional allocation of foodgrains, through the Public Distribution System in the 1,700 most backward blocks at a subsidised rate is another important step for protecting these vulnerable sections of society from the pressure on prices. Taking the proposed additional allocations on these accounts together with the Plan provision in the Budget, the total allocation to rural development would show a substantial increase over the current year.

The Plan outlay for the vital Family Welfare programme has been stepped up from Rs. 749 crore in the current year to Rs. 1,000 crore next year reflecting the Government's firm commitment to tackle the population problem. The outlay for the programmes of the Ministry of Welfare has also been increased from Rs. 479 crore to Rs. 530 crore reflecting fully Government's commitment to protection of the weaker sections of society.

Despite severe resource constraints most of the other sectors which are largely dependent on budgetary support for their plan outlays have been provided at least the same order of budget support as in the current year. I would have liked to provide more but we also have to live within the constraint of available resources. I would particularly like to paint out that we must give up past the practice of judging the quality of our Plan effort by the increase in the outlays provided for in the Budget. Our resources are scarce and there is a vast unexploited potential for improving the productivity of available resource use. There has to be much tighter scrutiny of various claims on resources and much greater emphasis on how to get more out of available existing resources. We cannot simply spend our way into prosperity.

Gross tax receipts at existing rates of taxation are estimated next year at Rs. 75,541 crore compared to Rs. 67,300 crore in the current year's Revised Estimates. The State's share of taxes is placed at Rs. 1,18,492 crore showing an increase of Rs. 1,293 crore over the current year's Revised Estimates. Non-tax revenues next year show an increase of Rs. 2,689 crore over the current year's Revised Estimates. This includes Rs. 416 crore of deferred dividends from the Railways. Next year's estimates assume an increase of Rs. 423 crore from dividends and profits of public sector enterprises. Unlike in the past, it is proposed to ensure that these enterprises transfer as dividend or surplus profit, a reasonable part of their post tax profits instead of determining the dividend payable merely on the basis of capital investment. The Reserve Bank of India will also transfer a larger share of its profits.

Under Capital Receipts, I have taken credit for market borrowing of Rs. 5,000 crore. This is significantly lower than the amount of

Rs. 7,500 crore in the Budget Estimates for the current year and reflects our objective of reducing the fiscal deficit and consequently the recourse to borrowed funds. External assistance including grants, but net of repayments, is estimated at Rs. 5,374 crore.

The disinvestment in public sector equity undertaken in the current year has been successfully completed. There is scope for continuing this process in 1992-93 with a view to raising non-inflationary resources for development. I am accordingly taking credit for a receipt of Rs. 2,500 crore from further disinvestment of equity holding in public sector enterprises. In addition to this amount, Government will consider a further sale of equity of Rs. 1,000 crore to provide resources to the National Renewal Fund in 1992-93, which can be used for various schemes of assistance to workers in the unorganised sector, including women workers, who may be adversely affected by the process of economic restructuring. These resources will also be used to fund the special employment creating schemes in backward areas which I have mentioned earlier.

Thus, at existing rates of taxation, total receipts are placed at Rs. 1,14,215 crore and total expenditure at Rs. 1,19,087 crore. This leaves a gap of Rs. 4,872 crore.

I now turn to what to do about this gap.

While presenting the budget last year, I drew attention to the need for a comprehensive reform of both the direct and indirect tax system and had explained that lack of time had made it difficult to do as much as I would have liked in this regard. Subsequently, the Government set up a Tax Reform Committee under the Chairmanship of Dr. Raja J. Chelliah. The Committee has since submitted its interim Report. The Report distills the wisdom of some of our most distinguished experts on the complex subject of reform of both direct and indirect taxes and I have drawn heavily upon it in framing my Budget proposals. The summary of recommendations contained in the Report has already been placed today on the Table of Parliament to enable fuller appreciation of the analysis of the Committee and the rationale for its recommendations. As I mentioned earlier, the full report is also being made available in the library of Parliament.

There is a consensus among fiscal experts, based on experience gained all over the world, that a moderately progressive tax structure combined with strong enforcement is the best way of encouraging honestly and voluntary tax compliance. The Chelliah Committee has endorsed this view and has recommended that our direct tax system would be more effective if the income tax regime had lower rates of taxation, with a narrower spread between the entry rate and the maximum marginal rate, and a minimum of tax incentives. I agree with this assessment and I propose to restructure the personal income tax in the following manner. I propose to enhance the exemption limit for income tax levy from Rs. 22,000 at present to Rs. 28,000. This will provide substantial relief to the tax-payers in the lower income group and I am sure it will be welcomed by the honourable members, many of whom had urged such an adjustment even last year. I hope this will convince them that I am an attentive and sensitive listener to what goes on in this august House. I further propose that there will only be three tax rate slabs, with the entry rate of 20 per cent, applicable up to Rs. 50,000, a middle slab of 30 per cent up to Rs. 1,00,000 and a maximum rate of 40 per cent above Rs. 1 lakh. A corresponding revision is also being made in the case of specified Hindu undivided families. Because of the severe resource constraints, I am compelled to retain the surcharge at 12 per cent for one more year, but this will be payable only by those whose income exceeds rupees one lakh.

With the reduction in tax rates, a number of tax exemption, which conferred large benefits on higher income tax-payers are no longer justified. I, therefore, propose to abolish the deductions under section 80L, 80CCA and 80CCB of the Income-tax Act. The computation of income from house property is also being rationalised in respect of certain deductions presently being allowed. The provision under section 88 which provides for tax rebate in respect of specified savings such as Life Insurance, Provident Funds, etc., will however continue, as these are normally availed of by fixed salary earners. In fact, I propose to widen its scope by including within its purview contributions to Pension Funds set up by the National Housing Bank and by Mutual Funds. I am also providing that those who wish to continue contributing to the saving schemes which until now qualified for deduction under section 80CCA and 80CCB, can get tax rebate under Section 88 of the Income-tax Act.

It is said that the child is the father of man, but some of our tax-payers have converted children into tax shelters for their fathers. The tax law provides for clubbing of income from gifts given by parents but this does not apply to other income, including income from other gifted assets and the practice of cross gifting is widely used to evade clubbing. The Chelliah Committee has recommended that in order to plug this loophole, which accounts for a substantial leakage of revenue, the income of a minor child should be clubbed with that of the parent. There is merit in this suggestion and I propose to accept it. Recognising, however, the existence of a number of child prodigies, especially child artists in our country, I propose to exclude their professional income, as also any wage income of minors, from the purview of such clubbing. The practice of clubbing the income of minor children with that of the parent for tax purposes is in vogue in a number of countries.

The revenue loss on account of the restructuring of income-tax rates at traditionally estimated will be Rs. 1,500 crore. However, this will be offset by the proposed abridgement in the concessions and tax exemptions and the change in the tax treatment of minor's income. If, as I expect, lower tax rates will lead to better tax compliance, there will be a net revenue gain even though it is not possible to quantify it. If tax-payers cooperate with me and revenue earnings go up significantly, I propose to reward the tax-payers with a further cut in income-tax rates. The ball is now in their court.

In a country with a population of over 800 million, hardly 7 million persons pay income and corporate tax. It is, therefore, necessary to attract new tax-payers into the tax net. With this end in view, I propose to introduce a presumptive tax system in respect of shop keepers and other retail traders with an annual turnover below Rs. 5 lakh. In order to enable them to avoid the difficulty of maintaining detailed account books, filing a complicated tax return and going through the normal assessment procedure, a simplified scheme has been worked out under which the tax-payer will give only brief particulars of his turnover and pay just Rs. 1,400 as tax for that year. This should enable many potential tax-payers in this category to overcome their psychological hesitation of getting into the tax system. The scheme is being introduced on a purely optional basis and is intended only for those who may have taxable income and wish to avail of this simplified procedure. With the increase in the exemption limit to Rs. 28,000, those with a turnover of less than Rs. 2.5 lakh to Rs. 3 lakh may well find that they do not have to pay this presumptive tax.

The present tax treatment of long-term capital gains has been criticised on the ground that the deduction allowed in computing taxable gain is not related to the period of time for which the asset has been held. It does not take into account the inflation that may have occurred over time. The Chelliah Committee has suggested a system of indexation to take care of the problem and I propose to accept its recommendation. Taxable capital gains will be computed by allowing the cost of the asset to be adjusted for general inflation before deducting from the sale proceeds. The adjustment factor for each year will be notified by the Central Government. The long-term capital gains thus computed will be taxed at 20 per cent in the case of individuals and Hindu Undivided

Families (HUFs), 40 per cent, in the case of companies, firms, associations of persons and bodies of individuals, and 30 per cent in the case of others. The new system will favour those whose capital gains accrue over a longer period, while those making capital gains over a shorter period will pay a higher tax. This is as it should be. The cut off date for valuation is also being shifted from 1 April 1974 to 1 April 1981. With these changes, I propose to withdraw the standard deduction in computing taxable capital gains and also the exemptions under section 54E for capital gains invested in specified assets and section 53 in respect of capital gains arising from sale of residential house.

While I am simplifying the income-tax structure, I should extend some concessions directly to certain categories of tax-payers who deserve sympathetic consideration from the Government.

Many individuals have to maintain handicapped dependents which often imposes a heavy burden upon them and this is a burden which society would seek to lighten as much as we can. I, therefore, propose to increase the deduction available to such persons from Rs. 6,000 at present to Rs. 12,000 per year. Further, the scope of this tax concession is being made available to all tax-payers irrespective of their income.

Women who take up employment deserve special consideration and encouragement. I, therefore, propose to increase the standard deduction from Rs. 12,000 to Rs. 15,000 in the case of working women having total income up to seventy-five thousand rupees. I hope this will convince honourable lady members of this House about my commitment to the cause of social and economic uplift of Indian women. The only *quid pro quo* I expect from them is to defend the Budget regardless of their party affiliations. My wife may be somewhat suspicious of the soft corner I have for working women. But I expect my daughters to fully support this noble act of their father.

Taking note of the financial difficulties often encountered by persons in old age and as a token of my regard for such senior citizens, I propose to give a tax rebate of 10 per cent, on the net tax payable by persons who have completed 65 years of age and whose gross total income is below Rs. 50,000.

Having regard to the fluctuating nature of income earned by authors, playwrights, artists, musicians, actors and sportsmen and in recognition of their contribution to the enrichment of the cultural life of the nation, the tax rebate for them in respect of specified savings under section 88 of the Income-tax Act will be increased from 20 per cent at present to 25 per cent.

The victims of the Bhopal Gas Disaster are to get compensation on the basis of the Supreme Court judgement. Having regard to the human dimensions of the tragedy, I propose to exempt in all cases, the compensation received by such recipients from income-tax liability.

I have received several representations for widening the scope of exempting medical expenses for both salaried and self-employed persons. I propose to substantially liberalise the provisions relating to hospitalisation and medical insurance. Tax benefits to salaried persons will no longer be limited to treatment in a few Government recognised hospitals only. Similarly, for self-employed persons, the deduction available for medical insurance is being enhanced from Rs. 3,000 to Rs. 6,000. I must, however, own up to a personal interest in this concession, since I may also have to join the ranks of self-employed persons if the opposition has its way.

Exemption from income-tax is now available to the employees of the public sector on payments made under the Voluntary Retirement Schemes. I propose to extend the benefit of the exemption, subject to certain guidelines, to the employees in the private sector as well.

There has been a long standing criticism that by subjecting the income of both partnership firms as well as the partners to taxation, we are engaging in double taxation. The Chelliah Committee has also stressed that double taxation in this regard should be avoided. I agree that we should avoid double taxation and I propose, as a measure of relief, to treat the firm as a separate tax entity and do away with the taxation of the same income in the hands of partners. I propose to allow deduction towards interest and salary payments made to partners from the income of the firm and then tax the balance income in the hands of the firm at a flat rate of 40 per cent. The proportion of deduction allowed decreases with the income level of the firm and is so designed that the total tax incidence on small firms and professional firms will be reduced. The partners will not be taxed on their share in the income of the firm though they will be liable to pay tax on salary and interest income. This method will result in enormous simplification from the point of view of tax-payers as well as tax administration as the proposed scheme will do away with complexities, associated with the procedure relating to registration of firms, rectification of partners' assessments when firms' assessments are revised, etc.

Last year, I introduced provisions relating to tax deduction at source in respect of interest on term deposits with banks and commission payments. There has, however, been considerable criticism from tax-payers about the implementation of these provisions. I have also received representations from a number of members of Parliament seeking withdrawal of these provisions. The system of tax deduction at source is a useful tool and one of the well recognised methods of enforcing tax compliance in many countries. However, a harassed Finance Minister has to be sensitive to the opinions of honourable members of Parliament even when they differ from his own convictions. Therefore, I propose to withdraw these two provisions.

The Wealth tax Act, 1957 has far too many exemptions making its administration enormously complicated. The valuation of certain assets such as shares also presents problems, since very high market values reflecting speculative activity can lead to a heavy burden on shareholders who are long-term investors. There is also no distinction at present between productive and non-productive assets. The Chelliah Committee has suggested that, in order to encourage the tax-payers to invest in productive assets such as shares, securities, bonds, bank deposits, etc. and also to promote investments through Mutual Funds, these financial assets should be exempted from wealth tax. Wealth tax should be levied on individuals, Hindu undivided families and all companies only in respect of non-productive assets such as residential houses including farm houses and urban land, jewellery, bullion, motor cars, planes, boats and yachts which are not used for commercial purposes. The Committee has further suggested that such tax should be at the rate of one per cent, with a basic exemption of Rs. 15 lakh. I propose to accept this recommendation and I hope this change will encourage investments in productive assets and discourage investment in ostentatious non-productive wealth.

Earlier in my speech I have referred to the importance which the Government attaches to the capital market and the special role of mutual funds including private sector mutual funds. In order to treat all mutual funds alike in tax matters, I propose to exempt from income-tax mutual funds in both public sector and private sector recognised by the Securities and Exchange Board of India. I had also referred to the scheme permitting Indian Companies to issue convertible bonds and equity to investors abroad. I propose to tax the income and capital gains from these issues at a concessional rate of 10 per cent, as is applicable of offshore mutual funds. It is hoped that these measures will give a new thrust to the capital market in the country.

Last year, I had extended expenditure tax to cover air-conditioned restaurants in order to mop up additional resources. I have received several representations that this provision falls heavily on innumerable restaurants and small establishments which are patronised mainly by the middle class. It has been suggested that airconditioning in restaurants, unlike in homes, is no longer a luxury item of the rich. The largest number of such complaints have come from Bombay. Having lived in

Bombay for two-and-a-half years, I have special regard for the citizens of this great city. This has been reinforced by their voting behaviour in the recent elections to the Municipal Corporation. I, therefore, feel a special obligation to respond. I propose to withdraw this levy as far as the restaurants are concerned. Let it be known that voting Congress (I) is both good politics and good economics.

However, I have made certain changes in the scope of the Expenditure Tax Act relating to hotel receipts. I propose to enhance the qualifying limit for liability relating to room charges of the hotel from the present Rs. 400 per day to Rs. 1,200 per day. In view of the exchange rate adjustments undertaken recently there is no longer any need for exempting expenditure made in foreign exchange from the tax. I am accordingly withdrawing this exemption.

With a view to providing support to the co-operative sector, I propose to exempt all co-operative societies including urban co-operative societies engaged in the business of banking from the purview of Interest-tax Act.

I recognise the need for a reform of the corporate tax system. This is also an area where rates of taxation need to be lowered and I would like to give advance notice of my intention to begin lowering them as soon as possible. I hope the opposition will not use this statement to bring a breach of privilege motion against me for having leaked the Budget secrets when I present the Budget for 1993-94. However, as the detailed recommendations of the Chelliah Committee on corporate taxation are yet to be received, I propose to defer major restructuring in this area until after I have received its recommendations. Accordingly, for the present there will be no change in the rate structure as well as the surcharge. In this budget, I propose to make just two changes. Ordinarily, depreciation and investment allowance carried forward from earlier year is set off against the current income. In line with the rationalisation of depreciation allowance brought about last year, I propose that in respect of assessment year 1991-93, the quantum of set off for carried forward depreciation and investment allowance in the case of companies, where such amount exceeds Rs. 1,00,000, shall be limited to two-thirds of such amount and the remaining one-third will be allowed to be adjusted in the assessment year 1993-94. Further, having regard to the widespread criticism that the Income-tax Act has artificial ceilings in regard to certain business expenses, I am liberalising some of the items on the basis of the recommendation of the Chelliah Committee.

Having regard to the complexities of our tax laws, I have been receiving representations that the Government should give Advance Rulings whenever a tax-payer has doubts about the tax-liability in respect of intended transactions. This practice is obtained in a number of countries. There are certain practical difficulties in implementing such a suggestion. However, in the interest of avoiding needless litigation and promoting better tax-payer relations, a scheme for giving Advance Rulings in respect of transactions involving non-residents, is being worked out and will be put into operation soon. The scope of this can be extended subsequently on the basis of experience gained. The Government is also planning to set up the National Court of Direct Taxes in order to ensure that litigation in direct tax matters is settled expeditiously. Along with this, the Government would also like to bring forward, as soon as possible, a Bill on Direct Taxes Code, integrating therein all the three direct taxes so as to make the law easily understandable and tax administration simple.

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

My proposals on direct taxes are estimated to yield a net revenue gain of Rs. 795 crore. Of this amount, Rs. 435 crore will accrue to the States.

I now turn to the proposals relating to indirect taxes.

A long standing complaint of our industry, and of experts in trade policy is that our customs tariff rates are too high and increasingly out of line with the trends in our competitor countries, all of whom have reduced tariffs to very moderate levels. My colleague the honourable Commerce Minister has repeatedly told me that we cannot expect to compete with these countries in the world markets if we persist with high tariff rates which have the effect of creating a high cost industrial structure. This is in line with the directions I had indicated in my Budget Speech last year. The Chelliah Committee, which was asked to look into all aspects of custom duties, has recommended reduction in the general level of tariffs, a reduction in the dispersion of the tariff rates and a rationalisation of the system with abolition of numerous end-use exemptions and concessions. The Committee has also rightly suggested that the process of reform should be gradual, so as to moderate the impact of the adjustment, both in terms of possible revenue loss and the pace at which domestic industry is exposed to competition. I propose to act on these recommendations by making a substantial start in this Budget on reforming the customs tariff structure.

Last year I had begun the process of reducing import duties by lowering the *ad valorem* rates of basic plus auxiliary duties of customs to a maximum of 150 per cent. I now propose to lower the peak tariff level further by reducing the basic plus auxiliary rates of import duties (inclusive of specific duties) to a maximum of 110 per cent with the exception of passenger baggage and alcoholic beverages. The loss of revenue on account of this proposal as traditionally estimated is Rs. 1,700 crore, though I feel it could be much lower in practice.

My next proposal relates to the duty on capital goods. The general duty on capital goods, including project imports, is currently at 80 per cent which is below the peak rate of 110 per cent. However, there is a good case for giving priority to reducing the duty on capital goods because high duty on capital goods constitutes a permanent increase in the cost of production for the life of the unit. In order to encourage new investment in export oriented industries, we should move to a lower duty rate on capital goods at an accelerated rate. I, therefore, propose to reduce the duty rate on project imports and general machinery from 80 per cent to 60 per cent. In the case of capital goods including project imports for electronics industry, I propose to reduce the import duty from 60 per cent to 50 per cent. In relation to capital goods for projects of coal mining and crude petroleum refining, I propose a deeper reduction in the imports duty prescribing a uniform rate of 30 per cent. In the case of power projects, the present concessional duty rate of 30 per cent or 40 per cent is being rationalised to a uniform rate of 30 per cent. I also propose to reduce the import duty on other capital goods currently attracting duty above 80 per cent by 10 percentage points. The existing concession in the duty rates available to the components of specified machinery enabling those items to be imported at rates below the rate applicable to the machinery is proposed to be continued. These changes will not adversely affect the competitive position of the Indian capital goods industry especially in view of the exchange rate adjustment effected last year. These proposals involve a loss of revenue of about Rs. 840 crore.

In view of the reduction of tariff peaks, I have also taken the opportunity to remove some of the end-use notifications for concessional duty imports. In this process of rationalisation, some duties may go up marginally. However, in view of the overall reduction of duty rates, industry should be able to absorb such marginal increases.

In my last Budget, I had proposed certain rationalisation of the rates of auxiliary duty of customs. I propose to further rationalise the auxiliary duty structure by reducing the number of duty slabs to four. The loss of revenue on this account is estimated at Rs. 125 crore.

Agriculture is the bedrock on which our economic development depends and the vital inputs for this sector have always been accorded a preferential tax treatment. In line with this principle, I propose to reduce the duty rate on 15 specified pesticides from 110 per cent at present to 75 per cent, by adding them to the list of pesticides eligible for this concession. I also propose to reduce the import duty on two pesticide intermediates from the present level of 120 per cent to 65 per cent. So also I propose to exempt three specified pesticide intermediates completely from excise duty. These proposals involve a revenue loss of about Rs. 8 crore.

Successful agricultural development calls for injection of new seeds which can increase productivity and imported seeds and planting material can help in this process. I, therefore, propose to fully exempt from import duty, oil seeds, seeds of vegetables, flowers and ornamental plants: tubers and bulbs of flowers; cuttings or saplings of flower plants; and seeds of fruit-plants and pulses, for the purpose of sowing and planting. In order to ensure efficient transplanting of seedlings, I also propose to reduce the import duty on rice transplanters from 80 per cent to 40 per cent.

The petro-chemical industry suffers from high duty rates on certain basic feed stocks which are the building blocks of the industry. There is a case of duty reduction and rationalisation in this area. I, therefore, propose to reduce the import duty on propylene from 120 per cent to 80 per cent, on butadiene from 55 per cent to 40 per cent and on benzene from 40 per cent to 25 per cent. I also propose a uniform import duty of 40 per cent for ethyl benzene and styrene which are essential inputs for the manufacture of polystyrene. Similarly, I propose to reduce import duty on certain specified feedstocks which find use in the manufacture of polyethylenes from 120 per cent to 40 per cent. The loss of revenue on account of the proposals would be around Rs. 26 crore.

As a measure of relief to the asbestos cement industry which serves the housing, water supply and irrigation sectors, I propose to reduce the import duty on asbestos fibre from 90 per cent to 70 per cent. The proposal involves a loss of revenue of Rs. 18 crore.

Films in our country have become an important vehicle of national integration. I have, therefore, to worry about the economic health of this important industry. In order to give relief to the film industry, which is facing increasing competition from cable TV and video, I propose to reduce the import duty on unexposed colour negatives of cinematograph film by 20 percentage points from the existing level. The loss of revenue involved in the proposal is Rs. 8 crore.

I propose to reduce the import duty on specified items of machinery required for the manufacture of fly ash and phosphogypsum bricks and building components, as a concession to W.B. which does not means World Bank, but West Bengal.

Last year as a relief to the newspaper industry I had exempted standard newsprint fully from customs duty. Being under such strong attack from the Opposition, I feel my support base in the Press could do with some strengthening. I now propose to fully exempt glazed newsprint which is presently attracting import duty of Rs. 550 per metric ton from payment of duty. The proposal involves a revenue loss of about Rs. 3 crore.

I have already mentioned that import of gold by Indians including persons of Indian origin as part of their baggage will now be allowed. Every such passenger will be allowed to bring upto five kilograms of gold and the import duty on such gold will be Rs. 450 per 10 grams, which works out to about 15 per cent in *ad valorem* terms. This duty will be payable in convertible foreign exchange. I am confident that this step will be welcomed by all, except those engaged in the hitherto profitable business of smuggling this metal into the country.

The restructuring of customs duty being attempted in this Budget is the beginning of a process in which our customs duties are gradually reduced, over a three to four years period to levels comparable with those in other developing countries. I would like to reassure honourable members that they need have no fear that the process of reducing duties will lead to the de-industrialisation of India. On the contrary the reduction is necessary to give the Indian industry an environment in which it can increase its competitiveness through absorption of technology and greater integration with the world economy. This is essential if we are to achieve true self-reliance. We shall take effective promotional measures to build up the competitive strength of Indian industry. The proposed restructuring of customs duty, together with the other changes in customs duty results in a net loss of Rs. 2,023.35 crore. The loss is estimated if we allow for a substantial improvement in the balance of payments, permitting a larger volume of imports and therefore, a higher level of customs revenue.

In the field of excise duties, I have been guided by the objectives of rationalising the excise duty structure, providing reliefs where necessary and, of course, raising additional resources, to offset the revenue loss from restructuring of customs tariffs.

While presenting the Budget for 1991-92, I had referred to 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. I propose to make an advance in this direction by abolishing licensing controls on production and manufacture under the Central Excises and Salt Act, 1944. The assessees would simply be required to register themselves with the central excise authorities. At present assessees are required to get their central excise licences renewed every five years. Registration will be valid as long as the assessee continues the manufacturing activity. I am proposing suitable amendments in the law to this end.

Honourable members would be aware that a Settlement Commission was established in 1976 under the Income-tax Act, 1961. I propose to set up a Settlement Commission, on similar lines, for dealing with customs and central excise disputes between the Department and the assessee. I trust this will help in speedy settlement of tax disputes.

Honourable members may also recall that a law was enacted in 1986 for the establishment of an appellate tribunal for the adjudication of disputes relating to the determination of the rates of duties of customs and central excise and to the valuation in pursuance of Article 323B of the Constitution. Due to unavoidable reasons, the tribunal could not be established. I propose to introduce legislation to suitably amend the Customs and Central Excise Revenues Appellate Tribunal Act, 1986 and set up the tribunal.

The housing sector is important, both socially and for employment generation and as such deserves special treatment. I propose to fully exempt from excise duty bricks and tiles having a minimum content of 25 per cent of red mud, which is a waste product of aluminium industry. I also propose to fully exempt light weight concrete building blocks from excise duty. Further, I propose to reduce the excise duty on pre-fabricated buildings from 15 per cent to 5 per cent. I also propose to fully exempt doors and windows made of plastic, iron and steel which incidentally would conserve our dwindling forest cover. Further, I propose to exempt completely panel doors which are currently attracting 30 per cent excise duty and about which I received a large number of representations from the hon'ble members. The proposal involve a revenue loss of about Rs. 4 crore.

The glass container industry has been going through a lean period. I propose to reduce excise duty on glass containers from 40 per cent to 30 per cent. The excise duty on glass containers manufactured by semi-automatic process and mouth blown process will also be reduced from the existing levels of 30 per cent and 15 per cent to 20 per cent and 10 per cent, respectively. The proposals involve a revenue loss of Rs. 30 crore.

At present there is a wide dispersion of duty rate among various sectors of the textile industry. My primary aim in this sector is to simplify and rationalise the tariff structure and to reduce the duty differential between the various textile fibres and yarns.

I propose to rationalise and restructure the excise duty on cotton yarn and cellulosic spun yarn. On cotton yarn, I propose to reduce the multiplicity of rates by having only five duty slabs. Excise duty on cellulosic spun yarn is also being similarly rationalised by having only three slabs.

I also propose to raise the basic excise duty on viscose fibre from Rs. 10.50 to Rs. 12 per kg., on viscose filament yarn from Rs. 12 to Rs. 15 per kg., and on acrylic fibre from Rs. 9.24 to Rs. 12 per kg. The duty rates on polyester blended yarns are also being rationalised.

Rags and synthetic waste are both raw materials for the shoddy woollen industry. I propose to equate the import duty incidence on both at 110 per cent.

With a view to raising the revenue from additional excise duty the proceeds of which go to the States, I propose to increase the duty on processed cotton fabrics by restructuring the duty slabs.

Several units in the nylon and polyester filament yarn industry are passing through difficult times. As a measure of relief, I propose to reduce the excise duty on nylon filament yarn from Rs. 63 to Rs. 55 per kg. and also to reduce the import duty on caprolactum from 80 per cent to 50 per cent. I also propose to reduce the excise duty on polyester filament yarn from Rs. 70 to Rs. 62 per kg.

To promote use of jute by the handloom sector, I propose to fully exempt jute yarn in hanks from excise duty. Similarly, jute products manufactured in rural areas by registered co-operative societies, women's cooperatives, etc., are also proposed to be fully exempted from excise duty.

As a measure of relief to the silk industry, I propose to reduce the import duty on raw silk from 55 per cent to 30 per cent.

The package of proposals relating to the textile industry involve a revenue reduction of about Rs. 25 crore.

I would now take up the proposals for rationalisation and additional revenue mobilisation.

At present excise duty is levied on *ad valorem* basis on some commodities and at specific rates on others. Over the years, for administrative reasons, *ad valorem* duties have been steadily replaced by specific rates or *ad valorem*-cum-specific rates. *Ad valorem* duties are preferable to specific duties as they ensure buoyancy in revenue on account of increase in prices, and the Chelliah Committee has recommended switching over to *ad valorem* rates for a number of commodities. It has also recommended that where specific rates are retained the same should be revised every year taking into account the price inflation. I propose to make a modest beginning by switching over to the *ad valorem* mode of levy where feasible.

In respect of major non-ferrous metals, namely, copper, lead and zinc and products thereof, I propose to fix a uniform *ad valorem* levy of 10 per cent in the place of existing specific rates of duty. As regards iron and steel, the excise duty on primary and semi-finished forms thereof is generally charged at specific rates of duty. For administrative reasons, I propose to retain the specific rates of excise duty on items like ingots and certain rolled products like bars, rods, etc., other than of stainless steel. In respect of these products, I propose to raise the existing rates, which are presently between Rs. 300 and Rs. 1,800 per metric ton to rates between Rs. 400 and Rs. 2,000 per metric ton. However, in respect of iron forgings and other steel products, I propose to prescribe a uniform excise duty of 10 per cent. The proposals involve a revenue gain of about Rs. 400 crore.

In my budget speech last year, I mentioned that every Finance Minister has to do his bit to curb smoking which is injurious to health. This injury to health is continuing and I would be failing in my duty if I did not make one more attempt to use the fiscal instrument in this worthy cause. While I do not propose to increase the duty on non-filter cigarettes of less than 60 mm in length, the duties on all other cigarettes are being raised by Rs. 30 to Rs. 100 per thousand depending on the length. The gain in revenue from the proposals is of the order of Rs. 325 crore.

I propose to increase the excise duty on certain plastic resins, namely, polystyrene, low density polyethylene, high density polyethylene and polypropylene from 30 per cent to 40 per cent. The revenue gain from the proposal is Rs. 165 crore.

Watches attract a very low rate of duty of 5 per cent which is out of line with the general duty structure. I propose to raise the rate to 10 per cent. The revenue gain from the proposal is estimated to be Rs. 12 crore.

I propose to increase the excise duty on cement from Rs. 215 to Rs. 290 per metric ton. The excise duty on cement produce in mini cement plants will also go up from Rs. 90 to Rs. 165 per metric ton, thus, maintaining the existing duty differential of Rs. 125 per metric ton in favour of mini cement plants. However, I propose to reduce the duty on white cement from 40 per cent to 35 per cent to bring the incidence closer to that on ordinary cement. The estimated revenue gain from these proposals is Rs. 376 crore.

I propose to raise the excise duty on paints from the existing levels of 15 per cent and 30 per cent to 20 per cent and 35 per cent respectively. The revenue gain on account of the proposals is estimated to be Rs. 35 crore.

I propose to increase the excise duty on organic surface agents from 25 per cent to 30 per cent. The proposal would yield an additional revenue of Rs. 50 crore.

At present two-wheelers such as motorcycles and scooters attract excise duty in slabs of 10 per cent, 15 per cent, 20 per cent, 25 per cent and 30 per cent depending on the engine capacity. I propose to rationalise the duty structure by leaving a uniform duty of 15 per cent on all two-wheelers of engine capacity up to 75 cc and 25 per cent on all others whose engine capacity exceeds 75 cc. I also propose to increase the excise duty on light commercial vehicles from 10 per cent to 15 per cent. The proposals involve a revenue gain of Rs. 80 crore.

I propose to increase the excise duty on cocoa and cocoa based preparations from 15 per cent to 25 per cent. The proposal involves a revenue gain of Rs. 24 crore.

I propose to increase the excise duty on wires and cables by five percentage points from the present levels. The additional revenue from the proposal is expected to be of the order of Rs. 60 crore.

I also propose to revise upwards the existing specific rates of excise duty on tyres, tubes and flaps. However, I propose to reduce the duty on moped tyres from Rs. 30 at present to Rs. 25 per tyre. The proposals involve a revenue gain of Rs. 40 crore.

Special excise duty is being levied at present at the rate of 10 per cent of the basic excise duty; certain essential items such as tea, coffee, sugar, matches, kerosene and *vanaspati* are fully exempted. In addition, high speed diesel oil and two-wheelers attract special excise duty at 5 per cent. I now propose to raise the special excise duty on products which are presently attracting a 10 per cent rate of duty to

15 per cent. However, this increase will not be applicable to petroleum products. I also propose to exempt from this increase certain consumer durables like motor cars and consumer electronics such as television sets, as these industries are currently passing through a difficult phase. This proposal involves a revenue gain of Rs. 1,025 crore. The exemption that I am giving to the motor car sector is at the request of the Chief Minister of West Bengal.

The changes in trade policy introduced last year have eliminated the differential incentives for export at higher stage of manufacture. While a uniform pattern of incentive is generally to be preferred, there is a case of introducing some disincentives for exports of certain primary products where the same product can be easily exported in value added form. I propose to impose an export duty of 10 per cent on exports of certain types of finished leather and on unpolished granite in order to encourage exporters to shift to leather products and polished granite. I am also imposing an export duty of 5 per cent on iron ore. The proposals are expected to yield an additional revenue of Rs. 142 crore.

I have also proposed certain amendments in the Finance Bill seeking to effect changes in the excise and customs tariff. These amendments are generally enabling provisions and have no revenue implication. 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.

The proposals with regard to changes in excise duty outlined above are likely to yield additional revenue of Rs. 2,515.70 crore. The concessions and reliefs announced aggregate to Rs. 304.80 crore. Out of the net additional sharable revenue from excise duties of Rs. 2,210.90 crore, the Centre's share would be Rs. 1,146.53 crore and the States' share Rs. 1,064.37 crore.

The net impact of my proposals on customs and excise duties taken together amount to an additional mobilisation of only Rs. 187.55 crore on indirect taxes. Since the loss in customs duties falls entirely on the Centre whereas the gain in excise revenue is shared with the States the impact on the Centre's revenue is a loss of Rs. 876.82 crore while the States will gain as much as Rs. 1,064.37 crore.

Copies of notifications giving effect to the changes in customs and excise duties effective from 1 March 1992, will be laid on the Table of the House in due course.

Taking direct and indirect taxes together, the changes I have proposed are expected to result in a net revenue loss of Rs. 517 crore to the

Centre while the States will gain Rs. 1,500 crore. Consequently the estimated year and budget deficit of the Centre for 1992-93, will be Rs. 5,389 crore and the fiscal deficit for that year will be Rs. 34,408 crore.

Our nation will remain eternally grateful to Jawaharlal Nehru for his vision and insistence that the social and economic transformation of India had to take place in the framework of an open society, committed to parliamentary democracy and the rule of law. India's development is of tremendous significance for the future of the developing world. To realise our Development potential we have to unshackle the human spirit of creativity, idealism, adventure and enterprise that our people possess in abundant measure. We have to harness all our latent resources for a second industrial revolution and a second agricultural revolution. Our economy, polity and society have to be extraordinarily resilient and alert if we are to take full advantage of the opportunities and to minimise the risks associated with the increasing globalisation of economic processes. We have to accept the need for re-structuring and reform if we are to avoid an increasing marginalisation of India in the evolving world economy. The economic policy changes brought about by our Government under the inspiring leadership of Prime Minister, Narasimha Rao, in the last eight months are inspired by this vision. Our party is an inheritor of great traditions of national service. True to this heritage, we commit ourselves to providing a firm and purposeful sense of direction to the reform process so that this ancient land of India regains its glory and rightful place in the comity of nations. This budget represents a contribution to the successful implementation of this great national enterprise, of building an India free from the fear of war, want and exploitation, an India worthy of the dreams of the founding fathers of our republic. We shall pay any price, bear any burden, make any sacrifice to realise these dreams. India is on the move again. We shall make the future happen.

Sir, I have come to the end of my labour. Tonight, I feel like going to the theatre. Let the assassins be informed, I am prepared to meet their onslaught.

As a poet says,

"*Sarphiroshi ki tamanna ab hamare dil main hai,*
Dekhana hai jor kitna bazuai katil main hai"

Sir, I commend the Budget to this August House.