SPEECH OF DR. MANMOHAN SINGH, MINISTER OF FINANCE, INTRODUCING THE BUDGET FOR THE YEAR 1994-95*

Highlights

— *Steps to Control External Debt Situation*
— *Proposal for Effective Monetary Management*
— *Measures to Stimulate Investment*
— *Promotion of Indigenous Technology*
— *Proposal for Strengthening Regional Rural Banks (RRBs)*
— *Recovery of Debt due to Banks and Financial Institutions Act, 1993*
— *Move Towards Insurance Sector Reforms*
— *Encouraging Private Sector Participation in Core Sectors*
— *Proposal to Simplify and reduce the rates of Customs and Excise Duties*
— *Proposal to Amend Income-Tax Act*

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

Sir, there are some critical moments in the life of a nation which call for bold and decisive leadership. History is full of instances when nations failing to grapple effectively with a crisis have paid dearly for those

Budget, 1994-95

Total Receipts	—	**Rs. 1,45,699 crore**
Total Expenditure	—	**Rs. 1,51,699 crore**
Deficit	—	**Rs. 6,000 crore**

* *Lok Sabha Debate,* 28.2.1994, cc. 855-907.

lapses for decades to come. As a poet has said:

"*Kuchh Aise Bhee Manjar Hain Tarikh Ki Najron Mein*
Lamhon Ne Khata Ki Thi Sadiyon Ne Saja Pai."

India faced one such grave crisis in June 1991 when the country was on the verge of bankruptcy. Fortunately, our leadership, our Party and our Government, under the inspiring leadership of Prime Minister Shri P.V. Narasimha Rao, met this challenge head on. The Prime Minister had pledged that we would give top priority to grappling with the grave economic crisis and putting the economy back on a path of sustainable growth.

He called upon our Government and our people to convert this crisis into an opportunity for national renewal.

"*Uth Ke In tarikion Mein Surkhian Paida Karen*
Is Zamin Ki Pastiyon Se Asman Paida Karen."

In pursuit of this mandate, we embarked on a far-reaching programme of economic restructuring and reform. When the Prime Minister launched his programme, there were many people in this House and outside as well who doubted the wisdom of embarking on such an unchartered course. But with the passage of time, these doubts have increasing, melted into thin air. One consequence is that though we started as a minority Government, we are no longer in that arena ....

— Sir, the Prime Minister could truly claim.

"*Main Akela Hi Chala Tha, Janib-e-Manzil Magar*
Log Sath Aate Gaya Aur Karwan Banta Gaya."

— He has, in the process, shown what the leadership is about.

"*Insan Woh Nahi Hai Jo Hawa Ke Sath Badle*
Insan To Wahi Hai Jo Hawa Ka Rukh Badal De."

Three years ago, India was everywhere being described as a basket case. Today our economic policies attract world-wide attention and interest. This shows, among other things, the inherent vitality of our democratic polity. It was in appreciation of this very inherent strength of this ancient civilization of India that the great poet Iqbal wrote those famous-lines:

"*Unan, Mishr, Roman Mit Gaye Jahan Se,*
Ab Tak Magar Hai Baki Namonishan Hamara.
Kuchh Bat Hai Ki Hasti Mitati Nahi Hamari
Sadion Raha Hai Dushman, Daurai Jama Hamara."

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

— Our foreign currency reserves, which were a little over $1 billion in June 1991 are now close to $13 billion. Our gold, which to our great sorrow earlier had been pledged abroad, is back in our possession.

— Exporters are responding very well to our sweeping reforms of exchange rate and trade policies. Our exports have increased by a remarkable 21 per cent in dollar terms in the first 10 months of 1993-94. This compares, for the corresponding period, with a decline of 3 per cent in 1991-92 and a rise of 2 per cent in 1992-93.

— Despite all the fears that liberalisation would lead to a flood of imports the dollar value of our imports during April-January 1993-94 was less than one per cent higher than imports during the corresponding period of 1992-93. For the fiscal year 1993-94, imports are likely to be lower than even 1990-91.

— The current account deficit in our balance of payments during 1993-94 will be less than half a per cent of GDP compared to over 3 per cent in 1990-91 and 2 per cent in 1992-93.

— Contrary to what many feared, the exchange rate for the rupee has remained remarkably steady despite unification and lifting of trade controls. Foreign exchange is flowing through legal channels in ample quantities instead of through hawala transactions as earlier.

— International confidence in India has been restored. Foreign direct and portfolio investment, which was hardly $150 million in 1991-92, is likely to be around $3 billion in 1993-94.

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

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

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

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

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

— Second, we must correct the slippage in the fiscal deficit that has occurred in the current year.

— Third, we must build on the demonstrable success already achieved in the external sector where our strong performance has vindicated our strategy of phased integration with the world economy.

— Fourth, the Budget must provide a major stimulus for a strong industrial recovery, especially for investment and capital goods production.

— Fifth, and most importantly, we must reorient and revamp our development policies and programmes to address more effectively the problems of poverty, unemployment and social deprivation which affect a large mass of our people, particularly in rural areas.

— Sixth, we have to consolidate and deepen the progress we have made in restoring the health of our banking system.

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

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

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

Honourable members are aware that some of our external debt is owed to the IMF. We had approached the Fund in our hour of difficulty. Now that our payments situation has improved considerably and our reserves have been rebuilt to comfortable levels, we are in a position to repay the Fund somewhat ahead of schedule. Repayments of principal and interest amounting to $1.4 billion are due to the Fund in 1994-95. Instead of following the regular schedule of payments, we intend to pre-pay the entire amount at the beginning of the year. This decision to pre-pay in no sense detracts from the excellent relations we have with the Fund which has helped us immensely in our time of need. We will not hesitate to seek financial support again, if conditions warrant.

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

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

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

Government had earlier proposed certain amendments to the Companies Act to streamline the Act in line with the contemporary requirements. Several representations have been received from industry seeking modifications of these proposals to give Indian companies an environment in which they can compete effectively in the highly competitive market place. Government has reconsidered the matter in the light of these representations and it is proposed to submit a new Bill to Parliament which will be responsive to these concerns.

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

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

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

One of our major concerns in rural credit has been the weak conditions of the Regional Rural Banks (RRBs). Of the 196 regional rural banks, as many as 150 have shown losses in each of the past five years. Many have completely wiped out their equity and reserves and in some the losses are eating into deposits. This is an unsustainable situation and long-term structural measures are necessary if these banks are to be rehabilitated. The Reserve Bank has already announced some measures giving RRBs greater flexibility in their lending operations to make them more viable. I propose to take up 50 of the 196 RRBs from all over the country in the course of 1994-95 for undertaking comprehensive restructuring, including cleaning up of their balance-sheets and infusion of fresh capital. The form and modality of the restructuring and associated financial support will be worked out during the year. The experience with these 50 RRBs will guide our approach in later years to the other RRBs. The success of this programme will depend on full cooperation from State Governments and sponsor banks, who are shareholders, as well as the employees of RRBs. Our objective is to transform presently weak and ailing RRBs into financially viable and effective instruments of decentralized rural banking and decentralized rural development.

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

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

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

I am grateful to this House for quick passage last August of the Recovery of Debt due to Banks and Financial Institutions Act, 1993 which provides for the establishment of Special Recovery Tribunals. These Tribunals will soon be operational, and will play a major role in improving the recovery of banks' dues. I am also happy to report that the Reserve Bank is setting up the Board for Financial Supervision to supervise more effectively the banks and other financial institutions. To alert banks and financial institutions and put them on guard against borrowers who have defaulted in their dues to other lending institutions, the Reserve Bank of India is putting in place arrangements for circulating among banks and financial institutions names of the defaulting borrowers above a threshold limit. The Reserve Bank will also publish a list of defaulting borrowers in cases where suits have been filed by banks and financial institutions. Both these measures will encourage greater discipline among the borrowers.

The Government attaches high priority to reforms of the capital markets aimed at creating an efficient and competitive capital market subject to effective regulation by the Securities and Exchange Board of India (SEBI) which will ensure adequate investor protection. After a temporary setback in 1992 following the securities scam, the capital market recovered ground quickly. The funds mobilized in the capital market through public and rights issues, duly approved by SEBI, in the first ten months of 1993-94 were over Rs. 18,000 crore, as compared to less than Rs. 1,600 crore in the same period of 1992-93 and under Rs. 6,000 crore for the full year, 1991-92. In addition, a number of Indian companies raised funds abroad through Euro-equity issues and Foreign Currency Convertible Bond Issues, The Government is committed to a thorough modernization of the capital market and rapid improvement of trading practices with a view to ensuring transparency and speed of settlements. The model National Stock Exchange with screen-based trading is expected to begin operation by the middle of this year. The establishment of a Depository System of scripless trading is another important objective. Government intends to bring before Parliament separate legislation for the establishment of these Depositories. The Government also proposes to make further amendments to the SEBI Act and the Securities Contracts (Regulation) Act in order to give additional powers to SEBI.

In my Budget speech last year, I had announced the establishment of a High-powered Committee to study the insurance industry and make recommendations on directions for its development in future. The

Committee on Reforms in the Insurance Sector was appointed under the Chairmanship of Shri R.N. Malhotra, former Governor of the Reserve Bank of India. The Committee has recently submitted its report, which underscores the need for progressive deregulation of the insurance sector to create a more competitive and financially strong insurance industry functioning under an independent regulatory authority. The report is now under active consideration of the Government. It is my intention to evolve a broad national consensus about the future direction and content of reform in this important sector.

Efficient and abundant infrastructure services are a necessary precondition for the success of our economic reforms and especially for international competitiveness. Our electric power sector is faced with severe problems, including problems of financial viability of the State Electricity Boards which must be solved if the supply of reliable power is to keep pace with ever-increasing demand. The sector requires major changes in the working of State Electricity Boards, rationalisation to tariffs and restructuring of responsibilities for generation, transmission and distribution. A Committee of the National Development Council is looking into a comprehensive reform of our power system and it will be necessary to face up to a number of hard decision in this vital sector.

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

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

Budget Estimate for 1993-94 had placed the total expenditure at Rs. 1,31,323 crore. This is now expected to go up to Rs. 1,43,872 crore, that is, an increase of Rs. 12,549 crore.

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

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

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

Gross tax revenue, which was estimated in the Budget at Rs. 84,867 crore, is now expected to yield Rs. 8,117 crore less. Of this, about Rs. 822 crore is due to tax receipts of the National Capital Territory of Delhi flowing into its own Consolidated Fund from 1 December 1993. There is also a consequential reduction in expenditure on this account. The rest of the shortfall is mainly under customs and Union Excise Duties. Customs revenue is Rs. 5,227 crore lower than expected mainly because imports have not increased as originally estimated. There is a shortfall of Rs. 2,001 crore in excise duty mainly due to the setback in production in certain high revenue yielding sectors of the economy. Due to the delay in finalisation of the procedure for disinvestment of equity holding in Public Sector Enterprises, the related receipts this year are estimated at Rs. 2,500 crore compared to the Budget Estimate of Rs. 3,500 crore.

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

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

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

I now turn to the Budget Estimates for 1994-95.

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

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

The increased budgetary support to the Central Plan is being directed to support higher outlays in important social sectors such as Rural Development, Education, Health and Family Welfare and Women and Child Development, and Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes. In response to the vital need for greater employment generation and capital formation in rural areas, and in order to focus more sharply on alleviation of rural poverty, the outlay for the Department of Rural Development has been increased from Rs. 5,010 crore in Budget Estimates 1993-94 to Rs. 7,010 crore in 1994-95, representing a massive increase of 40 per cent over the previous year. Hon. members will recall that the allocation for Rural Development was Rs. 3,100 crore in Budget Estimates 1992-93. In two years, we have more than doubled this provision. For the new Employment Assurance Scheme announced by the Prime Minister on 15 August 1993, which is being implemented in 1752 identified blocks, an outlay of Rs. 1,200 crore has been provided as compared to the 1993-94 outlay of Rs. 600 crore. Similarly, the allocations for the Jawahar Rozgar Yojana have also been enhanced from Rs. 3,306 crore in Budget Estimates 1993-94 to Rs. 3,855 crore in 1994-95. It is estimated that 1150 million man-days of employment are likely to be generated in 1994-95. I have also increased the allocation for the Accelerated Rural Water Supply Programme, including the Rajiv Gandhi National Drinking Water Scheme, by Rs. 150 crore in 1994-95.

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

The outlay for Agriculture will be Rs. 2,005 crore in 1994-95. A major thrust is being given to horticulture development with a 42 per cent increase in allocation from Rs. 130 crore in Budget Estimates 1993-94 to Rs. 184 crore in 1994-95. A major scheme for promoting use of plastics in drip irrigation is under implementation for which an enhanced outlay of Rs. 45 crore has been kept during 1994-95.

In the Eighth Plan, we have given high priority to the development of human resources. The bulk of outlay for this sector is in the plans of the States. The outlay for education in the Central Plan is being increased by 17.6 per cent to Rs. 1,541 crore in 1994-95. Special efforts are being made for strengthening of elementary education, for which the outlay has been increased from Rs. 442 crore in Budget Estimates 1993-94 to Rs. 523 crore in 1994-95. The allocation for the University Grants Commission has been increased from Rs. 159 crore in the Budget Estimates for 1993-94 to Rs. 209 crore in 1994-95. Special allocation have been made to upgrade the quality of libraries and laboratories in the system of higher education. Provision has also been made for the establishment of an Indian Institute of Technology and for two Central Universities in Assam. The House would recognize that as a Member of Parliament coming from the State of Assam, I am, of course pleased with this allocation.

The outlay for Health has been increased by nearly 20 per cent from Rs. 483 crore in Budget Estimates 1993-94 to Rs. 578 crore in 1994-95.

A revamped National Programme for the Control of Blindness, will be implemented from the next year. The allocation for the Leprosy Eradication Programme has been increased from Rs. 35 crore in Budget Estimates 1993-94 to Rs. 94 crore in 1994-95. Control and Prevention of AIDS is of paramount importance; an increased provision of Rs. 83 crore has been made for 1994-95.

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

The provision for the Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, inclusive of support to States for specified schemes, has been increased in 1994-95 to Rs. 982 crore. The share capital contribution by the Central Government to the National Scheduled Castes and Scheduled Tribes Finance and Development Corporation and the National Backward Classes Finance and Development Corporation is being increased from Rs. 53 crore in Budget Estimates 1993-94 to Rs. 76 crore in 1994-95.

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

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

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

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

The provision made in next year's Budget for non-Plan expenditure other than the provision for interest payments and Defence is actually Rs. 2,729 crore less than in the Revised Estimates for the current year.

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

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

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

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

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

— Further reduction in the peak rate of customs duty;

— Substantial reduction in duties on key raw materials, such as steel and chemicals;

— Reduction in customs duties on capital goods to boost investment combined with other incentives which will help the domestic capital goods industry;

— Reduction or removal of anomalies caused by import duties on raw materials and components being higher than on finished products;

— A systematic effort to unify rates on similar products to serve both economic rationality and to reduce the scope for classification disputes;

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

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

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

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

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

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

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

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

To help domestic metal producers, the import duties on all ores and concentrates are being reduced and unified at 10 per cent. To reduce the cost of inputs for the secondary steel sector, I propose to reduce import duty on melting scrap from 12.50 per cent to 10 per cent and on iron ore pellets from 15 per cent to 10 per cent.

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

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

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

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

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

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

The import duty structure for coal and petroleum is also being simplified. Crude petroleum and coal will attract import duty of 35 per cent as against Rs. 1,500 per metric ton and 85 per cent respectively. Duty on coke is being reduced from 85 per cent to 25 per cent. LPG and other petroleum gases will attract import duty at 15 per cent. Naphtha and kerosene will continue to be exempted from basic customs duty. Other petroleum products will attract an import duty of 30 per cent. These changes do not affect the administered prices of petroleum products to consumers.

The present import duty structure for chemicals provides for a lower rate of duty of 15 per cent for the basic feed stocks and peak rate of 85 per cent for the finished chemicals. The overall dispersal of the rates is being reduced by the reduction of peak rate to 65 per cent. In addition, duties on DMT, PTA and MEG are being reduced from 70 per cent to 60 per cent and on intermediates like xylenes and toluene, the duty is being reduced from 40 per cent to 30 per cent. The 15 per cent rate for basic feed stocks has been kept undisturbed.

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

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

I now turn to my proposals for central excise.

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

— Extension of MODVAT to capital goods and petroleum products;

— Shift in the bulk of excise taxation from specific to *ad valorem* rates which will assure much greater built-in buoyancy of revenues;

— Reduction in the total number of *ad valorem* tax rates to about half the existing number which will be a major step towards simplicity and transparency;

— Continuing the process of lowering rates when they are unduly high;

— Application of uniform rates for similar commodities to the extent possible. This will reduce classification problems, scope for misuse and widespread litigation;

— Removal of complicated price list procedure;

— Reduction of the number of special exemption notifications by about half.

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

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

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

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

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

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

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

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

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

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

The paper duty structure is complicated due to *ad valorem* rates of nil, 10 per cent, 15 per cent, 25 per cent, 30 per cent, specific rates and specific *cum ad valorem* rates. This is now being simplified by making the general rate of duty on paper at 20 per cent. Keeping *nil* rate for newsprint, stationery articles, etc., 30 per cent for paper based laminates and floor coverings and 10 per cent or 15 per cent for paper made from unconventional raw materials. I am enlarging the scope of the exemption currently available to paper mills using unconventional raw materials. This exemption currently limits the benefit by clubbing the clearances of paper from more than one factory of a manufacturer. I am now allowing this concession to be availed of by each factory separately. This was done at the specific suggestion of the State of West Bengal. I sincerely hope that Jyoti Basu will respond by not ill treating the gallant Mamata Banerjee.

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

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

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

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

It may be recalled that in the last Budget, in order to give encouragement to the ship breaking industry, basic customs duty on ships for breaking up was reduced to 5 per cent. Countervailing duty was payable in addition. Ferrous metals obtained from breaking up of ships were consequently exempted from excise duty. There have been some disputes regarding liability of countervailing duty on ships for breaking up. In order to obviate the disputes, I propose to exempt ships for breaking up from countervailing duty and correspondingly adjust the basic customs duty to 15 per cent. For the ship breaking industry, all goods obtained from such breaking up are also proposed to be exempted from excise duty so that ship breaking activity is completely outside the excise control.

As I am continuing the specific rates of duties on cigarettes, and these have remained unchanged for two years despite an increase in price, I propose to increase the duties on cigarettes by about 12 per cent. However, in the non-filter segment the excise duty for upto 60 mm category is being reduced from Rs. 120 per thousand to Rs. 60 per thousand, for increased utilisation of tobacco in this industry, which would in turn help the tobacco growers. I must confess that I had doubt about the latter concession. But, I have always believed that when in doubt, act as the poet said: "A bold peasantry, their country's pride; when once destroyed can never be supplied". In the interest of tobacco growers I am agreeing to this concession.

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

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

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

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

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

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

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

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

And to oblige Shri Nitish Kumar and our friends in the Trade Union Movement, I wish to say:

"*Mana Ki Teri Deed Ke Kabil Nahi Hun Mein*
Tu Mera Sauk Dekh, Mera Intzar To Kar."

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

I had stated last year that I was forced to retain the surcharge of 12 per cent on non-corporate incomes for one more year. I was tempted to repeat the same thing this year. But then, I thought life is short and I have promises to keep. Therefore, I am happy to announce that I now propose to withdraw the surcharge completely.

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

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

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

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

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

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

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

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

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

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

Investment in the development of human resources is an essential pre-requisite for growth and progress. Several students take loans for their studies. As a means of helping students from poor families, who take loans from financial institutions and to ensure that higher education in our country does not remain a monopoly of the rich and the very rich. I propose to allow a deduction from income of Rs. 25,000 per year on account of repayments of principal and payment of interest up to a cumulative total of Rs. 2 lakh. This tax concession will be available to students who undertake graduate or post-graduate studies in Engineering. Medicine or management, or post-graduate studies in Pure-Sciences, Applied Sciences, Mathematics or Statistics.

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

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

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

The system of community of property (COMMUNIAODOS BENS) is peculiar to the people living in Goa, Daman, Diu, Dadra and Nagar Haveli. Recently, certain judicial decisions have been handed down according to which business income of a Goanese family becomes taxable entirely in the hands of a single entity. The decisions affect the time-honoured method of dividing such income equally and assessing such income separately in the hands of the husband and wife. I believe that a mere tax collector has no right to sow the seeds of discard in families. This I understand has given rise to unnecessary tensions and anxiety amongst the Goan couples. To set at rest all controversies in this area, I propose to make suitable amendments in the Income-tax Act to ensure that, excepting for salaries, any other income arising to the citizens governed by the system of community of property in Goa will be divided equally and assessed separately in the hands of the husband and the wife. I hope that when the time comes, the people of Goa will remember the hand that helps.

We have, in the last few years, liberalized the taxation of perquisites in the form of medical expenditure in the case of employees. I propose extending the scope of the benefit by including re-imbursement of bills paid by employees to recognized private hospitals.

In order to give relief to those living in their own houses and as an incentive for house construction, I propose to raise the deduction on account of interest on borrowed capital for house construction from Rs. 5,000 to Rs. 10,000 for purposes of income-tax. This will help a large number of middle class house holders who live in their own houses.

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

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

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

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

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

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

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

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

As conventionally estimated, the proposed changes in custom duties will result in a revenue loss of Rs. 2,981 crore and a revenue gain of Rs. 699 crore. On the Excise side, the revenue gain is anticipated at Rs. 2,106 crore and reliefs will amount to Rs. 2,000 crore. The effect of changes in Direct taxes will result in a loss of Rs. 1,075 crore in the personal income-tax collections and Rs. 1,355 crore in Corporation tax. The estimated loss on expenditure-tax is Rs. 75 crore. Taking into account an estimated gain of Rs. 600 crore on account of taxes on services, the total net loss on account of tax measures by conventional methods of calculation amounts to Rs. 4,081 crore. The loss to the State on account of reliefs in personal income-tax is Rs. 625 crore and the gains on the Excise duty Rs. 148 crore. On the basis of these calculations, the Centre will suffer a net loss of Rs. 3,604 crore.

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

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

For these reasons, I do not propose to assume any revenue loss as a result of the Budget proposals. The Budget deficit will, therefore, remain at Rs. 6,000 crore and the fiscal deficit at Rs. 54,915 crore. At this level, the fiscal deficit will be around 6 per cent of GDP. This is higher than

I would like to see, but as I have said, all tax reforms involve some risks.

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

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

With these words, Sir, I commend the Budget to this august House.