SPEECH OF
SHRI P. CHIDAMBARAM,
MINISTER OF FINANCE,
INTRODUCING THE BUDGET FOR THE YEAR 1996-97*

Highlights

— *Accelerated Irrigation Benefit Programme Proposed*

— *Establishment of Infrastructure Development Finance Company*

— *Setting up of National Highway Authority of India (NHAI)*

— *Creation of National Illness Assistance Fund*

— *Insurance Regulatory Authority to be made a Statutory Body*

— *Proposal to set up Foreign Investment Promotion Council*

— *Promotion of R&D Activities*

Sir, I rise to present the regular Budget for the year 1996-97.

An unusually peaceful general election produced an unusually complex mandate. It was the duty of every political party to be faithful to that mandate. Accordingly, political parties of different complexions and different ideologies have come together to form this Government. Many of them are regional parties, albeit with a national outlook. What has united us is a resolve to preserve India's secular heritage and to provide a representative Government committed to faster economic growth and enhanced social justice.

Budget, 1996-97

Total Receipts	**—**	**Rs. 1,95,774 crore**
Total Expenditure	**—**	**Rs. 2,04,698 crore**
Deficit	**—**	**Rs. 8,924 crore**

* *Lok Sabha Debate,* 22.7.1996, cc. 285-314.

The United Front is a coalition. Before assuming office, the partners of the coalition finalised a document called "A Common Approach to Major Policy Matters and a Minimum Programme", popularly called the Common Minimum Programme (CMP). This historic document was released to the nation by our Prime Minister, Shri Deve Gowda, on 4 June 1996. When I began work on the CMP I was not even a Minister. When we completed our exercise I found myself in the office of Finance Minister. Therefore, my commitment to the CMP goes beyond the office I hold. Hon'ble Members will have many opportunities this afternoon to test my commitment and they will find that the CMP has provided the foundation and set the agenda for this Budget.

An Update of the Economic Survey 1995-96 was laid on the Table of the House last Friday. It is a slim document of no more than 21 pages and I hope it made for good weekend reading. Our conclusions are that the economic indicators point to high growth but there are significant areas of weakness. The Update has identified these areas as the fiscal deficit, sluggish agricultural growth, inadequate infrastructure, high interest rates and the trade deficit. The most worrisome is the decline in the growth of agricultural crop production to 0.9 per cent in 1995-96. The Update has so listed fiscal challenge, infrastructure challenge and employment and poverty alleviation as key issues which need to be addressed on a priority basis.

The CMP has declared that the government will follow economic policies that will promote growth with social justice and lead to greater self-reliance. We have no use for jobless growth; nor for growth that leaves untouched large sections of the people. We will remove controls and regulations over agriculture and industry. We will keep our economy open and competitive in order to encourage more foreign trade and attract more foreign investment. We will reform the tax system. We will broaden and deepen reforms of the financial and capital markets even while strengthening independent regulators like the Reserve Bank of India (RBI) and the Securities Exchange Board of India (SEBI). Above all, we will observe fiscal and monetary prudence which is the key to low inflation and rapid growth.

This Budget, therefore, has seven broad objectives:

- To remain steadfast on the course of economic reforms and liberalisation aimed at accelerating economic growth.
- To address the concerns of the poor and provide them with basic minimum services in a time-bound manner.
- To ensure broad-based growth in agriculture, industry and services to achieve high employment.

- To ensure fiscal prudence and macro-economic stability.
- To enhance investment, especially in the infrastructure sectors.
- To strengthen key interventions to promote human development.
- To ensure viability in the balance of payments through strong export performance and larger foreign investment flows.

I shall now deal with the major areas of the economy and spell out our policy initiatives in order to achieve the objectives that I have just listed.

Agriculture & Rural Credit

The Common Minimum Programme lays emphasis on broad-based agricultural development and calls for a doubling of the flow of credit to agriculture and agro-Industries, particularly to small and marginal farmers, within five years. We have evolved an integrated plan consisting of several elements for fulfilling this important objective.

First, the share capital of the National Bank for Agriculture and Rural Development (NABARD) will be increased from the present level of Rs. 500 crore to Rs. 2,000 crore in the next five years. I propose to double NABARD's paid up share capital to Rs. 1,000 crore in the current year. A budgetary provision of Rs. 100 crore is being made towards the Government of India's share and the balance of Rs. 400 crore will be contributed by the Reserve Bank of India.

Second, the Rural Infrastructure Development Fund (RIDF) which is operated by the NABARD and funded by contributions from commercial banks falling short of their priority lending targets will be augmented considerably. The RIDF provides loans to State Governments for completion of projects in areas like medium and minor irrigation, soil conservation and watershed management. During 1995-96, NABARD sanctioned loans aggregating Rs. 1,984 crore to 19 States for completing 2,489 projects. During the current financial year, an additional Rs. 2,500 crore will be made available for financing rural infrastructure through the RIDF.

In addition to the RIDF, I am proposing an Accelerated Irrigation Benefit Programme under which the Centre will provide, on a matching basis, additional Central assistance by way of loans to the States for the timely completion of selected large irrigation and multi-purpose projects. I am making an allocation of Rs. 800 crore in 1996-97 to launch this scheme which is designed to accelerate the completion of irrigation/projects where the project cost exceeds Rs. 1,000 crore and is beyond the resource capability of the States. I am also allocating Rs. 100 crore in the current financial year for irrigation projects where, with just a little additional resources, the projects could be completed and farmers could get the benefit of assured water supply. 1,00,000 hectares will be brought under irrigation through these schemes and I have been assured that the first crop will be harvested on these lands during one of the next four agricultural seasons. Details of the large projects and the projects to benefit 1,00,000 hectares will be announced by the Planning Commission in the next few days. This programme will be closely monitored by the Department of Programme Implementation.

Fourth, to promote investment in commercial or high technology agriculture and allied activities such as horticulture, floriculture and agro-processing, State level agricultural development finance institutions are proposed to be set up. NABARD will be the chief promoter. Other national level financial institutions as well as the State Governments concerned will be requested to participate in the equity.

Fifth, it has been agreed with RBI to promote the setting up of new private local area banks with jurisdiction over two or three contiguous districts. This would enable the mobilisation of rural savings by local institutions and, at the same time, make them available for investments in the local areas.

Finally, we have taken a number of decisions that will directly benefit the farmers. Two weeks ago, the Prime Minister announced increases in the subsidies for phosphatic and potassic fertilisers. Government have decided to extend the subsidy under the Integrated Cereal Development—Rice Programme to power tillers at the rate of Rs. 30,000 or 50 per cent of the cost for each power tiller. The subsidy scheme on small tractors at the rate of Rs. 30,000 per tractor is presently restricted to small and marginal farmers. I am extending this scheme to all farmers. I am also enhancing the subsidy on sprinkler and drip irrigation from 50 per cent to 70 per cent of the cost of the the system and the ceiling is also being raised from Rs. 15,000 to Rs. 25,000 per hectare. In respect of small and marginal farmers, women and scheduled castes and scheduled tribes, this limit is being raised to 90 per cent of the cost of the system.

Basic Minimum Services

One of the first acts of the Prime Minister, Shri Deve Gowda, was to convene a meeting of Chief Ministers on Basic Minimum Services. This reflects the resolve of the United Front to "advance the principles of political, administrative and economic federalism". The Chief Ministers' Conference recommended adoption of seven objectives to be attained by safe drinking water; 100 per cent coverage of primary health centres;

universalisation of primary education; public housing assistance to all shelterless poor families; extension of the mid-day meal scheme; road connectivity to all villages and habitations; and streamlining the public distribution system targeted to families below the poverty line.

These objectives are now being served by Centrally-sponsored schemes and schemes in State Plans. Hon'ble Members will be glad to know that I am providing an additional amount of Rs. 2,466 crore as Central assistance for State and UT plans to significantly increase the availability of funds for these schemes. From this amount, it is our intention to allocate about Rs. 250 crore to provide shelter and other basic amenities to slum dwellers. The distribution of this enhanced allocation across the seven schemes and across States and Union Territories will be determined by the Planning Commission in consultation with them.

Infrastructure Financing

The Update of the Economic Survey has highlighted the enormous challenge on the infrastructure front. The state of our infrastructure—particularly power and roads—is very poor. We cannot sustain a 7 per cent growth unless we can revitalise these infrastructure sectors. Huge funds are also required for telecom, railways and ports.

Infrastructure needs long-term finance, typically 15-20 year financial instruments. However, it has not been possible to float such instruments in the Indian market so far. Hence, I am proposing the establishment of an Infrastructure Development Finance Company (IDFC). This company will be incorporated with an authorised share capital of Rs. 5,000 crore. The Central Government, the RBI, banks and financial institutions will contribute to the share capital. I am making a budgetary provision of Rs. 500 crore in the current financial year as the contribution of the Central Government. The RBI's initial contribution to the share capital will also be Rs. 500 crore. Among other things, the IDFC will act as a direct lender, as a refinancing institution and as a provider of financial guarantees. I believe that the IDFC will induce investors, both Indian and foreign, to make available long-term funds at the lowest possible market rates.

I am also proposing some tax incentives for infrastructure investment which I shall outline later.

Hon'ble Members are aware that the Central Government has already set up the National Highway Authority of India. We need a world-class national highway system in place very quickly. I have decided to provide a sum of Rs. 200 crore to strengthen the capital base of the National

Highway Authority of India. The Authority will now be in a position to leverage resources for highway development from both within India and from outside.

Small Scale Industry

The entrepreneur-driven small-scale sector forms the backbone of our industry. I am deeply committed to strengthening this sector. The following set of measures will be put in place immediately:

- First, the Small Industries Development Bank of India (SIDBI) has an unutilised corpus of about Rs. 175 crore in its Technology Development and Modernisation Fund Scheme. I am now proposing that SIDBI should refinance the State Financial Corporations (SFCs) and commercial banks for modernisation projects upto Rs. 50 lakh. This will decentralise decision-making to the advantage of small-scale units seeking modernisation funds from SFCs and banks.
- Second, refinance is now provided for the Single Window Scheme of SFCs, etc. for composite loans upto Rs. 50 lakh. I am doubling this ceiling to Rs. 100 lakh.
- Third, SIDBI will participate in venture capital funds set up by public sector institutions as well as private companies upto 50 per cent of the total corpus of the fund, provided such a fund is dedicated to the financing of small scale industry.
- Fourth, in order to encourage a larger number of small scale units to seek ISO 9000 certification of quality, lending institutions will be permitted to lend to the ultimate borrowers on the same terms and conditions as SIDBI's direct lending scheme. SIDBI will provide refinance assistance to these lending institutions.

Science & Technology

Science and technology is the key to economic progress and prosperity. Indian scientists and technologists have accomplished a great deal, especially in the areas of agriculture, space, atomic energy and defence. There is now need for a massive renewal of our science and technology infrastructure.

I propose to extend a matching one-time grant for the modernisation of the laboratories and institutes of the Council of Scientific and Industrial Research (CSIR) and the Indian Council of Agricultural Research (ICAR). I will match every commercial rupee that the CSIR and ICAR earn incrementally in the next two years with another rupee from the Budget.

I also propose to strengthen the Fund for Technology Development and Application which was created in 1994-95 to help indigenously developed technologies reach the stage of commercial application. The interim Budget had provided Rs. 10 crore. As a demonstration of this government's commitment to science and technology, I am immediately making available Rs. 30 crore. The Department of Science & Technology will announce the constitution of the Technology Development Board shortly.

Public Distribution System

The Common Minimum Programme states that the Public Distribution System will be strengthened to meet the twin objectives of price stability and making available essential articles to the poor. It is, therefore, proposed to restructure the PDS. A beginning will be made where the need is most acutely felt. The restructured PDS will serve households below the poverty line. Details of the restructured PDS are being worked out and will be announced in due course.

Pay Commission

The Fifth Pay Commission is expected to submit its report by the end of September 1996. Funds have been provided in this Budget as well as the Railway Budget to meet the anticipated expenditure. Meanwhile, I am happy that the question of granting another instalment of interim relief has been sorted out satisfactorily.

Other Welfare Measures

The Prime Minister has repeatedly declared that this government is a government of the poor and for the poor. Growth with social justice will be the motto of this government. Unless the country's GDP grows at over 7 per cent year in the next 10 years, we will not be able to abolish poverty and unemployment. However, there is a need to identify vulnerable sections of the people and help them. The Prime Minister has identified some target groups which deserve to be helped and I am proposing some new initiatives for meeting their special needs. These initiatives will be implemented through the State Governments and, as far as possible, in collaboration with non-governmental organisations.

- I am setting apart, initially, a sum of Rs. 5 crore to assist in the establishment of old-age homes and another sum of Rs. 5 crore to assist in the establishment of residential primary schools for poor children irrespective of caste or creed. It is intended that both these programmes should be implemented through non-governmental organisations. The programmes will be firmed up by the Ministries concerned in consultation with the State Governments.

- Rs. 10 crore is being provided for giving assistance to States which have or will set up Women Development Corporations. An additional amount of Rs. 10 crore has been set apart for starting training-cum-production centres or schemes for destitute women in different States.
- I am creating a National Illness Assistance Fund with an initial corpus of Rs. 5 crore. Besides, Rs. 25 crore have been set apart for contributions to the corpus of State Illness Assistance Funds that we would encourage the State Governments to establish. 100 per cent of the donations to these funds will be exempted from income-tax. These funds will be used to provide assistance to the very poor for surgery or treatment for serious illnesses requiring hospitalisation.
- Rs. 5 crore is being provided to award an *ex-gratia* amount of Rs. 50,000 per family to the families of lorry and bus drivers who meet with fatal accidents. This will be implemented by the State Governments on a reimbursible basis.
- I am making a provision of Rs. 5 crore for building residential facilities for *hamals*—our brothers who toil day and night. This scheme will also be implemented by the States.

Government will consider a scheme of financial assistance to States who confer ownership rights in respect of minor forest produce on Scheduled Castes, Scheduled Tribes, Other Backward Classes and other weaker sections who work in forests.

Fiscal Discipline

The biggest challenge that we face is the fiscal challenge. The United Front Government is committed to bring the fiscal deficit to below 4 per cent of GDP. This is what the Common Minimum Programme says and this is what I intend to do over a period of time. One plank of the strategy is, of course, to raise more revenues. But without a credible public expenditure management policy, no programme of fiscal deficit reduction will be sustained. I believe that no one is against austerity or efficiency as such. At the same time, I accept the position that sound expenditure management is not a mere technocratic exercise but involves issues of equity, fairness and non-discrimination. In order to work out a reasonable policy in this regard, I propose to appoint a high-level Expenditure Management and Reforms Commission comprising distinguished political leaders, economists and administrators. This Commission will be given four months—and I hope no more—to submit its recommendations on public expenditure management and control as far as the Central Government is concerned. The report will be made public immediately so that we can generate an informed public debate on an issue that has a vital bearing on our economic future.

I also propose to place before the House a discussion paper on subsidies. The paper will list all the subsidies, visible and hidden, so that there can be an informed debate and a consensus on the overall level of subsidies as a percentage of GDP and their appropriate targetting.

In the meantime, I intend to be strict in matters relating to cash management, project portfolio review, adherence to budgetary ceiling and adequacy of returns from public sector enterprises.

Hon'ble Members are aware that in September 1994 an agreement was signed between the Central Government and the RBI to phase out the system of *ad-hoc* treasury bills by 1997-98. The experience last year and in the current year so far has shown the difficulty of staying below the within-year limit. Nevertheless, I remain convinced that the system of *ad-hoc* treasury bills must be phased out. However, before this can happen we need to put in place a better expenditure control mechanism. We also need a more transparent method of defining and reporting the true budget deficit, including all forms of monetisation. I shall present concrete proposals in this regard at the time of presentation of next year's budget so that RBI can have greater autonomy in formulating and implementing monetary policy.

Insurance, Banking and the Capital Market

Earlier I made a reference to insurance in the context of long-term finances. LIC and GIC are our two premier institutions in the insurance sector. I intend to strengthen them. The strength of an insurer has to be measured by the range and quality of its services and products and by the number of people availing of those services and products. I am happy to announce that I have been able to persuade LIC and GIC to offer two new services aimed at the middle class and the poor.

LIC will offer a new pension scheme called "Jeevan Suraksha". The details of the new scheme will be announced separately but an illustration of how the scheme will work can be given. A person who subscribes to the scheme at age 30 for a period of 30 years by paying just

Rs. 250 per month will get a life pension of Rs. 3,500 per month beginning at age 60. In addition, that person will get 25 per cent of the commuted value of the pension—about Rs. 1 lakh—immediately on retirement. If the insured person dies before retirement, the spouse will be paid a substantial life-long pension. This scheme will meet a long-felt need amongst a large number of people for economic security beyond their working life. To launch this personal-cum-family pension scheme, I am proposing some fiscal incentives which I shall outline later.

Medical insurance is an area where the quality of the product can be greatly improved. Under the existing Medicare scheme, the maximum cover available is Rs. 83,000 which is further segmented into different components. This ceiling is being enhanced to Rs. 3 lakh with a single aggregate limit.

Furthermore, the GIC will launch a new low price medicare policy appropriate to the vast majority of our people. *Jeevan* is the brand name for the LIC and we respect intellectual property rights. So we are calling this new scheme "*Jan Arogya*". The policy will provide a cover upto Rs. 5,000 per year with an annual premium of only Rs. 70. What is more, a family of four comprising the husband, wife and two children below the age of 25, can pay an annual premium of Rs. 240 and get cover for Rs. 20,000 for the family as a whole. GIC will soon announce the details of this scheme.

I have advised LIC and GIC to introduce modern information technology in their business. I have also asked LIC to review the premium structure based on the latest mortality tables.

An interim, non-statutory Insurance Regulatory Authority was set up in January 1996. I now propose to introduce a Bill to make it a statutory body and to empower it suitably. When I return to the subject of insurance in the next Budget, I shall address some of the policy parameters outlined in the Common Minimum Programme, including the sequence of steps for the restructuring of the insurance industry.

Reform of the banking sector has been an integral part of the process of economic reforms. The public sector banks have shown an improvement in profitability and capital adequacy and are taking steps to adopt improved technology. The entry of private sector banks has added a welcome measure of competition. Hon'ble Members are aware that in the past three years the Government provided a total of Rs. 11,840 crore to recapitalise several public sector banks. I am happy to inform the House that three of these banks are now in a position to return part of the capital, amounting to Rs. 747 crore, reflecting an improvement in their performance. This re-flow of resources will help to recapitalise some more public sector banks for which a provision of Rs. 909 crore is being made in 1996-97. Some of the strong public sector banks are also planning to recapitalise themselves by accessing the capital markets directly. Hon'ble Members will be pleased to know that the State Bank of India is today a prized scrip in the market. I am also providing Rs. 200 crore in 1996-97 for restructuring and recapitalising the Regional Rural Banks.

The capital market has a crucial role to play in raising funds for new investment. Government will ensure healthy development of the capital markets through effective regulation, greater transparency and improved trading and settlement practices. Our major stock exchanges have already introduced on line electronic trading. The commencement of a Central Depository, which is expected in the course of this year, will be a historic further step in the modernisation of the capital markets.

The present regulations governing Foreign Institutional Investors to allow investment only in listed securities. There is also a limit of not more than 5 per cent for an individual FII and an aggregate of 24 per cent for all FIIs in the stock of a listed company. It has been represented that these limits should be liberalised. Besides, FIIs are unable to invest in infrastructure because most infrastructure projects are set up by new companies which are not expected to be listed for some time. Having regard to these representations, I propose to raise the limit of 5 per cent for an individual FII to 10 per cent subject, however, to the aggregate limit of 24 per cent for all FIIs. I also propose to allow them to invest in unlisted companies in the same manner as they are allowed to invest in listed companies. The revised guidelines are being issued separately by SEBI.

Non-Banking Financial Institutions

Serious concerns have been expressed from time to time about the activities of a number of non-banking financial institutions, both corporate and non-corporate. I am happy to inform the House that, in consultation with the Reserve Bank of India, we have decided to bring before this House amendments to the RBI Act to strengthen the regulatory powers over all kinds of non-banking financial companies.

Corporate Sector

It is widely acknowledged that the Companies Act, 1956 needs to be re-written comprehensively. Some work has already been done. I intend to constitute a small drafting team comprising persons with knowledge of law, economics and company affairs to prepare a new draft and make it ready for public debate. My deadline is 1 January 1997.

In the meanwhile, I propose to introduce some urgent amendments to the present Act to provide for the following:

- Companies defaulting on payment of interest or repayment of principal on deposits will be debarred from raising further deposits until these defaults are remedied.
- The present ceiling of Rs. 1,000 on the claims of arrears of wages and salaries of employees in case of winding up of a company is absurdly low. This will be enhanced.
- Mutual funds and venture capital funds will be permitted to vote in respect of their holdings in companies.
- Non-voting shares will be permitted upto 25 per cent of the issued equity capital. This will go a long way in meeting the demand for a level playing field.
- Companies in the infrastructure sector will be allowed to issue shares that are redeemable after the expiry of a period of 20 years from the date of issue.

Hon'ble Members will agree with me that these changes are necessary and should be introduced right away. Next year, I shall come back to the House with a new Companies Bill.

In order to achieve competitiveness, Indian industry must be given easy access to improved technology. At present RBI accords automatic approval for technology imports subject to the requirement that royalty will be limited to 5 per cent on domestic sales and 8 per cent on export sales and that the lump sum payment does not exceed Rs. 1 crore. All other cases require case-by-case approval by the Central Government. Industry has represented that the Rs. 1 crore limit for automatic approval needs to be increased. Responding to this demand, it has been decided to increase this limit to $2 million (equivalent to about Rs. 7 crore). With this liberalisation, a large number of technology import cases will not have to come to Government.

The Industrial Reconstruction Bank of India (IRBI) was constituted to function as the principal credit and reconstruction agency. Thanks to rapid changes, the burden of reconstruction is being shared by different stakeholders including development financial institutions and banks. I, therefore, propose to transform the IRBI into a fulfledged, all purpose development finance institution with headquarters in Calcutta. I will soon bring the necessary changes in the statute governing IRBI.

FIPB, Tariff Commission and Disinvestment Commission

In keeping with the promises made in the Common Minimum Programme, Government have reconstituted the Foreign Investment Promotion Board (FIPB). The Foreign Investment Promotion Council will also be set up shortly. Together, they will vigorously promote and approve foreign direct investment in India keeping in view the objective of attracting at least $10 billion every year.

In order to expedite foreign investment approvals and also increase the transparency of the process, Government have decided to expand the list of 35 industries which are eligible for automatic approval upto 51 per cent of foreign equity. The expanded list will be announced separately by my colleague, the Minister of Industry. At present, the automatic approval procedure is subject to the requirement that the value of foreign equity should cover the total import of capital goods. This condition was introduced in 1991 when capital goods imports were subject to import licensing. As capital goods have been free of import licensing restrictions since 1992, this condition is being dropped.

Government have also initiated action to set up an independent Tariff Commission.

Government have approved the proposal to establish a Disinvestment Commission. Any decision to disinvest will be taken and implemented in a transparent manner. Revenues generated from such disinvestment will be utilised for allocations for education and health and for creating a fund to strengthen public sector enterprises. The Interim Budget for 1996-97 took credit for Rs. 5,000 crore through disinvestment. I propose to take credit for the same amount. The disinvestment will be done in three tranches, approximately in September, November and January/February.

Industrial Sickness

The Sick Industries Companies Act (SICA) has a narrow definition of sickness and cannot deal with incipient or potential sickness. Managements have been able to use the BIFR route to abdicate their legitimate responsibilities. Under the present dispensation workers, financial institutions, banks and Government are often the losers. I have initiated a total review of SICA and the working of BIFR and I intend to bring a new Bill in the winter session of Parliament.

Centre-State Relations

I have already made a reference to the Chief Ministers' Conference on Basic Minimum Services. The Prime Minister intends to call another conference of Chief Ministers to discuss the political aspects of Centre-State relations and federalism. At the last conference, the Chief Ministers expressed the view that many Centrally sponsored schemes should be retained as such and should continue to be funded by the Central Government. While we respect the views of the Chief Ministers, it is our desire that most Centrally sponsored schemes should be transferred to the control of the State Governments. In the meantime, States will be given greater flexibility in the implementation of these programmes. Provisions available under all other schemes will be pooled and the basic entitlement ratio will be worked out for each State. The States will be free to select for implementation within their annual entitlement, such schemes that are more suited to their needs. The Ministry of Planning and Programme Implementation is working on the revised guidelines and procedures in consultation with the concerned Ministries and the States.

I also intend to circulate a discussion paper to Hon'ble Members on the 10th Finance Commission's recommendation to form a single divisible pool of taxes to be shared between the Centre and the States. *Prima facie*, the Finance Commission's recommendation appears to be in the national interest but it will require an amendment to the Constitution. Hence, I wish to encourage a debate before a final decision is taken.

The Common Minimum Programme has promised that the Government will, within six months, bring out a detailed document that will articulate the priorities and programmes of the Ninth Plan. While a number of programmes have been initiated in this Budget, it will be our endeavour to prepare an Approach Paper to the Ninth Five Year Plan within four months. The Ninth Plan will target a growth rate of 7 per cent per annum and will articulate strategies for decentralisation of responsibilities for raising resources and for ensuring widespread growth. The initiatives that have been taken this year will be followed by more comprehensive programme of social and economic development with the focus on elimination of poverty.

I shall now briefly go over the Budget Estimates.

As Hon'ble Members are aware details of the Revised Estimates for 1995-96 were presented along with the Interim Budget in February 1996. I am, therefore, not going over those estimates again. The figures that are given below are the Budget Estimates for 1996-97 and for plan expenditure I shall compare them with the Budget Estimates for 1995-96.

For 1996-97, the total expenditure is estimated at Rs. 2,04,698 crore. Of this, Rs. 54,685 crore is gross budgetary support for the Central Plan and assistance to State and UT plans, representing a sharp increase of 13 per cent over Rs. 48,500 crore. Non-plan expenditure is placed at Rs. 1,50,013 crore.

Central assistance for State and UT plans is being stepped up from Rs. 19,506 crore to Rs. 21,972 crore. The increase will provide funds to the States for implementing the seven Basic Minimum Services schemes to which I have referred earlier.

Gross budgetary support for the Central Plan is being enhanced from Rs. 28,994 crore to Rs. 32,713 crore.

All anti-poverty programmes will be reviewed with a view to strengthening them and providing them with more funds. The plan allocation for the Department of Rural Development has been increased from Rs. 1,263 crore to Rs. 2,195 crore. The plan allocation for the Department of Rural Employment and Poverty Alleviation is Rs. 6,437 crore.

The plan allocation for the Department of Fertilizers has been increased from Rs. 205 crore to Rs. 373 crore in order to increase domestic production.

For tapping the potential of Non-Conventional energy sources, the plan allocation for the Ministry of Non-Conventional Energy is being raised by Rs. 87 crore to Rs. 334 crore.

Mr. Speaker, Sir, I hope Hon'ble Members will forgive the Finance Minister if he is partial to the cause of exports. After all, I cut my teeth in economic administration in the Ministry of Commerce. Promotion of exports must remain high on our agenda. Hence, I propose to provide a sum of Rs. 50 crore for the corpus of the recently established India Brand Equity Fund. I would appeal to industry and trade to contribute at least an equal amount in this financial year itself. A sum of Rs. 25 crore has been provided for critical balancing infrastructure. Non-plan provision for export promotion and market development has been enhanced from Rs. 315 crore to Rs. 460 crore. Deemed exporters will now get refund of terminal excise duty in quick time.

The plan allocation for the Department of Health has been stepped up from Rs. 647 crore to Rs. 792 crore.

The plan allocation for the Department of Education has been increased substantially from Rs. 1,825 crore to Rs. 3,388 crore. This will help in implementation of the District Primary Education Programme and the mid-day meal scheme.

This government is committed to safeguard the interests of women and children by expanding the social safety nets. The annual plan allocation for the Department of Women and Child Development is being stepped up from Rs. 730 crore to Rs. 847 crore. The allocation for the Integrated Child Development Scheme is being increased from Rs. 588 crore to Rs. 682 crore.

The plan allocation for the Ministry of Labour has been increased from Rs. 136 crore to Rs. 188 crore. Enhanced provisions have been made for schemes relating to improvement in the working conditions and for training of workers.

In the Railway Budget presented a few days ago, government have announced an outlay of Rs. 8,130 crore in the Railway plan for the current year with a budgetary support of Rs. 1,269 crore. Based on the ability of the Railways to meet their stipulated targets on internal resource generation, I will consider increase in the budgetary support during the course of the year for this crucial sector.

The plan allocation for the Ministry of Surface Transport has been increased by Rs. 240 crore to Rs. 1,322 crore, mainly to provide enhanced support for national highways. Schemes are on the anvil to make Kochi and Tuticorin important transshipment ports for container traffic.

There are persistent demands from the Andaman and Nicobar Islands and Lakshadweep for more flexible norms for determining the cost for funding and implementing projects. Having regard to their special needs, I have agreed to these demands. We will also ensure that the Island Development Authority is activated to accelerate development in these strategic islands.

I am happy to inform Hon'ble Members that the Members of Parliament Local Area Development Scheme (MPLADS) is being continued in the current year. Adequate funds are being made available for this scheme.

The total non-plan expenditure in 1996-97 is placed at Rs. 1,50,013 crore compared to Rs. 1,23,651 crore in BE 1995-96 and Rs. 1,34,320 crore in RE 1995-96. Of the increment, Rs. 8,000 crore is on account of increase in interest payments, the provision for which is now placed at Rs. 60,000 crore. The provision for Defence expenditure has been increased from Rs. 26,879 crore in RE 1995-96 to Rs. 27,798 crore. I assure Hon'ble Members that, if required, more funds will be made available in order to equip and keep our armed forces in fighting fit condition.

I have already referred to the major new initiatives for giving an impetus to agriculture and irrigation. The increase on account of higher subsidies for phosphatic and potassic fertilisers will be Rs. 1,724 crore over last year's provision of Rs. 500 crore. The enhanced subsidies are expected to lead to a balanced use of various fertilizers for better soil health and productivity.

The provision for food subsidy has also been increased from Rs. 5,500 crore to Rs. 5,884 crore.

A provision of Rs. 449 crore has been made for writing off the outstanding interest and conversion of loans into equity in the subsidiaries of Bharat Yantra Nigam Ltd., Bharat Bhari Udyog Ltd. and Hindustan Paper Corporation Ltd. under BIFR approved revival plans. In addition, a provision of Rs. 1,270 crore has been made for non-plan loans to public sector enterprises mainly for payment of salaries and wages to the employees.

I now turn to the revenue receipts. Gross tax revenues at the existing rates of taxation are estimated at Rs. 1,29,453 crore. After providing Rs. 34,451 crore as the share of taxes of the States, the Centre's net tax revenue will be Rs. 95,002 crore. Non-tax revenues, an important component of our receipts, have also shown healthy buoyancy. The receipts under this head, which were estimated at Rs. 29,103 crore in RE 1995-96, are expected to be Rs. 33,035 crore this year. I am confident that we can do better under some heads. I have taken credit for Rs. 2,500 crore as license fee from private operators of cellular and basic telecom services.

The net revenue receipts for the Centre, including non-tax receipts, are expected to increase from Rs. 1,10,191 crore in RE 1995-96 to Rs. 1,28,037 crore in 1996-97.

In the area of capital receipts, traditional market borrowings are placed at Rs. 3,700 crore. Other medium and long-term loans are estimated at Rs. 21,798 crore. Net external assistance will be Rs. 2,461 crore. I am also taking credit for receipts from disinvestment of equity in public sector enterprises of Rs. 5,000 crore. Total receipts at the existing rates of taxation are estimated at Rs. 1,95,774 crore while total expenditure is Rs. 2,04,698 crore. I shall come to the Budget deficit and the fiscal deficit in Part B of my speech.

PART B

Now, I turn to my tax proposals.

The good news is there are no new direct taxes save one and even that solitary new tax, I am confident, will be almost universally welcomed.

There are pressing demands from all sections of society to raise the threshold limit for personal income-tax from the existing level of Rs. 40,000 to at least Rs. 60,000. Each increase of Rs. 1,000 in the threshold limit will cost the exchequer Rs. 150 crore and since 77.5 per cent of this loss will be borne by the States, any major concession on this front will put a severe strain on the States' financial resources. Besides, when the direct tax base is already narrow—only 110 lakh persons pay income-tax—no Finance Minister can afford to let 20 or 30 lakhs of them go out of the net. However, I accept the need to provide relief to the assessees in the first tax bracket, especially the salaried class. I propose to do so in two ways: first, I propose to reduce the income-tax rate for the first bracket from 20 per cent to 15 per cent. This benefit will be available to all assessees. I also propose to raise the standard deduction from Rs. 15,000 to Rs. 18,000 for salaried employees having an income upto Rs. 60,000. Thus, a salaried employee with an income of Rs. 60,000 per year, making the minimum contribution to his provident fund, will now pay no tax at all. If he has no savings, he will still pay only Rs. 300.

We owe a special consideration to our senior citizens. At present, senior citizens benefit from a special tax rebate of 40 per cent upto an income level of Rs. 1,00,000. I propose to raise this to Rs. 1,20,000.

House-owners, residing in their own houses that have been financed by borrowing, deserve relief. The deduction of interest payments of Rs. 10,000 allowed to them from their income from property is proposed to be raised to Rs. 15,000.

As another relief measure, I propose to raise the limit under section 80D of the Income-tax Act for deduction in respect of insurance on the health of the individual and his family members from Rs. 6,000 to Rs. 10,000.

I have already mentioned the new scheme of personal-cum-family pension being introduced by LIC. In order to encourage savings in this form, I propose to allow the contribution to the pension fund to be deducted from taxable income upto a limit of Rs. 10,000 per annum. I also propose to exempt the income of such a pension fund in the LIC from the levy of income-tax.

At present, a five year tax holiday is available under section 80-IA to enterprises engaged in developing, maintaining and operating infrastructure facilities such as roads, highways, bridges, new airports, ports and rail systems. I propose to extend this incentive to investment in irrigation, water supply, sanitation and sewerage systems.

I also propose to provide a five year tax holiday under section 80-IA of the Income Tax Act to companies exclusively created to participate in research and development activities. I am also simplifying the existing procedure for giving weighted deduction under section 35(2AA) of the Income-tax Act on sums paid for scientific research to a National Laboratory or a University or an Indian Institute of Technology by deleting the condition of approval by an outside body.

Infrastructure funds have become an important source of capital to finance infrastructure projects, In order to encourage such funds established to mobilise resources for financing infrastructure facilities, I propose to exempt them from income-tax. Any dividend, interest or long-term capital gains of such funds or companies from investments in the form of shares or long-term finance in any enterprise set up to develop, maintain and operate an infrastructure facility will be free from income tax.

I also propose to allow investment in approved debentures or equity shares of public companies as eligible for tax rebate under section 88, if the proceeds of such public issues are applied to create a new infrastructure facility or to generate or distribute power. In the case of such investment, the limit of Rs. 60,000 under section 88 will be raised to Rs. 70,000.

Corporate tax rates have been reduced and simplified over the past few years and the results have been very encouraging with a significant increase in corporate taxes as a percentage of GDP. However, there are two issues which need to be addressed. The first is the promise made in the past that the corporate surcharge will be temporary. The other is the phenomenon of zero tax companies which, according to many observers, reflects an excessive degree of laxity in the tax regime. I propose to respond to the two issues as follows:

(i) I am reducing the rate of surcharge on corporation tax from 15 per cent to 7.5 per cent and hope to take a similar step in my next budget. The reduced tax burden will benefit all companies big and small.

(ii) I propose to introduce a '*Minimum Alternate Tax*' (MAT) on companies. In a case where the total income of the company, as computed under the Income Tax Act after availing of all eligible deductions, is less than 30 per cent of the book profit, the total income of such a company shall be deemed to be 30 per cent of the book profit and shall be charged to tax accordingly. The effective rate works out to 12 per cent of book profit calculated under the Companies Act. Companies engaged in the power and infrastructure sectors will, however, be exempted from the levy of MAT.

As a step towards achieving a level playing field for Indian companies *vis-a-vis* the foreign companies, I propose to reduce the tax on long-term capital gains in the case of domestic companies from 30 per cent to 20 per cent.

In order to encourage savings and to channelise savings into investments in priority sectors of the economy, I propose to exempt from tax long-term capital gains if the net consideration received or accruing from the transfer of the capital asset is invested in specified assets for a period of three years or, alternatively, if the entire capital gains are invested in specified assets for a period of seven years. The assessee will now have a choice of two new savings instruments.

I also propose to allow depreciation in the case of fractional ownership of assets because of the need for joint financing of big, capital intensive projects by a consortium of financiers having fractional shares in the assets.

In order to promote efficiency in industry, I propose to provide that unabsorbed depreciation will be carried forward for a period of eight years only in the same manner as business losses.

The practice of sale-and-lease-back of assets results in passing of very high depreciation to the leasing concerns. This needs to be curbed. Hence, I propose to provide in the Income Tax Act that in case of sale-and-lease-back transactions, the written down value of the asset, in the hands of lessee, who was the previous owner, will be treated as cost in the hands of the lessor. This measure, while not affecting bonafide transactions, will prevent loss-making concerns from indulging in unhealthy trade-off of depreciation.

I find it unreasonable that commercial properties, not used by the assessee as his business, office or factory premises, should be outside the levy of wealth-tax. Accordingly, I propose to plug this unintended loophole and levy wealth-tax on such commercial properties.

Other measures of tax relief proposed by me include—

(i) Allowing a special deduction of Rs. 15,000 to the patient or guardian of a patient of protracted diseases like cancer or AIDS involving considerable expenditure on treatment.

(ii) Exempting under section 10(24) of the Income Tax Act the income of an Association of Registered Trade Unions.

(iii) Extending 100 per cent deduction under Section 80G of the Income Tax Act to—

  (a) Donations made to Illness Assistance Funds established by the Central government and the State governments to meet the medical expenses of the poorest of the poor;

  (b) Donations made to State and National Councils of Blood Transfusion recently set up by the Ministry of Health and Family Welfare; and

(c) Donations made to the three funds established by the armed forces of the country. These are the Army Central Welfare Fund, The Indian Naval Benevolent Fund and the Air Force Central Welfare Fund. This is my way of saluting the brave officers and jawans of our armed forces.

As a part of our obligation to the South Asian Association for Regional Cooperation (SAARC) I am exempting from income tax the income of SAARC Fund for Regional Projects (SFRP).

In order to promote industrial development in the North-Eastern region of the country, a North-Eastern Development Finance Corporation was established in August 1995. I propose to exempt its income from tax.

These proposals are likely to result in an improvement of revenue under direct taxes which is estimated at Rs. 912 crore.

I shall now come to the proposals relating to indirect taxes.

Over the last few years steps have been taken to reform our indirect tax structure by reducing the number of rates, removing exemptions and by switching over to *ad-valorem* rates. On the customs side the peak rate of duty was reduced to 50 per cent in 1995-96 accompanied by reduction in rates down the line in respect of all commodities. Central excise duties were also revamped and moved closer to a Value Added Tax with the introduction of MODVAT for capital goods and extension of input credit facilities to almost all items necessary for the manufacture of goods. These changes have contributed to the growth in industrial production, simplified the tax structure and brought about greater transparency. They have also led to strong growth in revenues, with indirect tax collections increasing by 19 per cent in each of the last two years, in spite of substantial reduction in rates. The Common Minimum Programme mandates the government to continue with tax reforms and I propose to do so.

Keeping in view the twin objectives of making our industry globally competitive and providing it reasonable levels of protection in the transitional period, I propose to take measured and calibrated steps in the matter of customs tariffs.

The salient features of my proposals are—

- Reduction in customs duties on crude oil and other basic petrochemical intermediates.
- Reduction in the rates of customs duties on raw materials and inputs such as chemicals, plastics, natural rubber and ferrous and non-ferrous metals.

- Substantial reduction in customs duties on raw materials and components required for giving a thrust to the electronic goods sector.
- Reduction in the rate of duty on computers for giving a boost to the software industry.
- Reduction in import duty on selected machinery to modernize the textiles and garment sector.
- Removal of several anomalies in duty rates.
- Unification of rates on similar items in order to substantially reduce disputes on classification and on rates.
- Retention of only such exemptions which are necessary, for the present.

India has become a major producer and exporter of chemicals. This industry has shown a healthy growth in the last two years. This is an area in which India can exploit its potential of trained technical manpower and become a leading nation of the world in the production of chemicals. To achieve these objectives, I propose to take the following steps:

- Reduction in the rate of duty on crude oil from 35 per cent to 25 per cent.
- Reduction in the rate of duty on bitumen from 30 per cent to 10 per cent.
- Unification of rates at 10 per cent on petrochemical building blocks such as cumene, toluene and cyclohexane.
- Reduction in the rate of duty on chemicals, both organic and inorganic, from 50 per cent to 40 per cent.

Our textile industry employs millions of people. It is necessary to modernise it and provide an environment in which it can grow rapidly. I propose the following measures:

- Reduction in the import duty on rayon grade wood pulp from 25 per cent to 5 per cent.
- Reduction in the import duty on acrylonitrile from 20 per cent to 10 per cent.
- Reduction in the rate of duty on DMT, PTA and MEG from 35 per cent to 25 per cent; however in the case of caprolactum the revised duty will be 30 per cent.
- Reduction in the rate of duty on artificial and synthetic fibres from 45 per cent to 30 per cent.

- Unification of the rates of duty on nylon filament yarn, polyester filament yarn and viscose filament yarn from the existing levels of 45 per cent and 40 per cent at 30 per cent.

I also propose a major restructuring of excise duties in the textile sector, extending the benefit of MODVAT, to which I shall come a little later. I am confident that with these measures our textile industry will grow from strength to strength in the coming years.

Our power plants face a shortage of coal on account of growing demand and better utilisation of installed capacity. I propose to reduce the rate of duty on non-coking coal from 35 per cent to 20 per cent. I also propose reduction of duty on coke from the existing level of 25 per cent to 20 per cent.

Our plastics industry is coming of age. I propose a reduction of duty on plastics from 40 per cent to 30 per cent. Further, on articles of plastics I propose a reduction from the existing level of 50 per cent to 40 per cent.

In regard to rates of duties on drugs and pharmaceuticals, I propose to retain the zero rate of duty on life saving drugs. I also propose to reduce the rate of duty on all other allopathic medicines from 50 per cent to 40 per cent. In order to make available veterinary drugs commonly used I propose to reduce the rate on specified veterinary drugs from 15 per cent to 10 per cent.

There has been a persistent complaint from industry that customs duty on metals is very high and this makes it difficult for downstream industry, especially capital goods, to be competitive. Industry has been demanding that the rate of duty on metals should be brought down drastically. However, realising the need to provide adequate time to our metals industry to adjust itself to global competition, I propose a modest reduction from 35 per cent or 40 per cent at present to a peak rate of 30 per cent on all metals except nickel and aluminium. On unwrought aluminium and unwrought nickel I propose to retain the current level of 10 per cent and 20 per cent respectively. On wrought aluminium I propose to reduce the duty from 25 per cent to 20 per cent and on wrought nickel from 30 per cent to 20 per cent.

While I do not wish to tamper with the rate of duty on machinery which stands at 25 per cent, I propose a reduction of duty on signaling and safety equipment for railways, airports, sea ports, etc. from the current level of 50 per cent to 25 per cent.

The last three years have witnessed a tremendous growth in our electronic industry which has been the result of enterprise as well as the stimulation provided by sharp reduction in customs duties. In order to maintain this trend, I propose the following changes:

- On raw materials from the existing 15 per cent to 10 per cent.
- On components, from 25 per cent to 20 per cent.
- On glass shells for colour TVs, from 30 per cent to 25 per cent.
- On colour picture tubes, from 40 per cent to 30 per cent.
- On computers and computer peripherals, from 40 per cent to 20 per cent.
- Finished goods will continue to attract 50 per cent rate of duty.

With a view to encourage sports in the country, I also propose to reduce import duty on sports goods from 50 per cent to 30 per cent.

In order to give relief to professional press photographers I propose to allow them to import free of duty photographic equipment upto Rs. 1 lakh. A similar concession is also being extended to accredited journalists for import of personal computer, typewriter and fax machine.

Telecommunication is a growing sector and will turn out to be the life-line of our economy. The existence of an efficient telecommunication network is a pre-requisite for accelerated economic growth. In order to give a boost to the efforts being made by the Department of Telecommunications, I propose that the duty on parts and sub-assemblies of telecommunication equipment be reduced from 35 per cent to 30 per cent and on finished equipment from 50 per cent to 40 per cent. In order to avoid the temptation to smuggle cellular phones, pagers and trunking handsets, I propose to reduce the customs duty on them to 30 per cent.

Upgradation of medical standards in the country is extremely important. I, therefore, propose to reduce the rate of duty on specified equipment, not generally made in India, and their parts from 15 per cent to 10 per cent and on other medical equipment from 40 per cent to 30 per cent.

Edible oils now carry a rate of duty of 30 per cent. This is an important item of daily food for the masses and we have a chronic shortage of edible oils in the country. I propose to reduce the import duty on edible oils from 30 per cent to 20 per cent.

Mr. Speaker, Sir, earlier in my speech I dwelt on the dire need to step up investment in infrastructure. I had also detailed the sectors to which I propose to make large allocations. I have to raise resources to meet these requirements. I intend to ask importers to share the burden of building the infrastructure in this country because, ultimately, it will help raise production and enhance competitiveness. I, therefore, propose a levy of 2 per cent as special customs duty on all imports except those that carry nil rate of duty or are imported at nil rate of customs duty for export production under the various duty free licences. This levy will not apply to gold and silver imported by eligible passengers or under special import licences. This is likely to yield about Rs. 1,600 crore in the current year.

Importers will be happy to know that the Reserve Bank of India is announcing today the withdrawal of the interest rate surcharge of 25 per cent on import finance imposed in February 1996.

I now come to my proposals regarding central excise. A large number of countries in the world today have a value added tax system which has been recognised to be the most efficient form of commodity taxation. I am glad to note that some State governments are moving towards the value added tax system. The last few years of reforms have taken us closer to having a Central VAT, but there are still certain legal obstacles.

Our central excise structure still has 11 *ad valorem* rates. The rates range from 0 to 50 per cent. Ideally there should be only four rates of excise duties—zero, a lower rate of excise duty on goods of mass consumption, a single normal rate on all other goods and a higher rate on luxury items. It is absolutely necessary for us to move towards this rate structure so that we put an end to wasteful litigation and have a transparent and simple tax structure. It was not possible in the time available to me in preparing this Budget to achieve this goal in the current year. However, I propose to take the first step this year and I am confident that we will achieve a four-rate excise duty structure in another year or two.

I propose to integrate the tax on the textile sector with the mainstream of central excise duties by introducing the MODVAT principle in this sector. Hon'ble Members are aware that at present excise duties are levied at the fibre and yarn stage and there is only an additional excise duty, in lieu of sales tax, on fabrics. This is one of the most inefficient ways of taxation as it results in very high duties on inputs, which encourages evasion; it does not capture value addition; and it denies the industry an opportunity of claiming MODVAT input credit on capital goods, chemicals and yarn. While modernisation of other industries is taking place speedily, our textile industry has not been able to participate fully in this process because of this lopsided tax structure. I, therefore, make the following proposals.

I propose to reduce the excise duty on yarn in the case of polyester filament yarn from the current level of 50 per cent to 40 per cent and unify the rates on other yarn at 20 per cent, except nylon filament yarn and cotton yarn for which the present rates of 30 per cent and 5 per cent, respectively will be retained. In order to provide MODVAT for the textile sector, I propose to impose a basic excise duty of 5 per cent on cotton fabrics and 10 per cent on other fabrics which will be collected at the processed fabric stage. The processors would be in a position to MODVAT the duty paid on yarn imputed on the basis that yarn accounts for 50 per cent of the value of the finished fabric. I have adopted a simple procedure of imputed value to avoid the imposition of a basic duty on grey fabrics which are manufactured by thousands of powerlooms. Such powerlooms will therefore, continue to be outside the excise net. Composite mills and textile processors will be able to avail themselves of MODVAT facilities hitherto not extended to them. This restructuring of excise duty, together with the substantial reduction in customs duties on selected machinery and on inputs for the textile sector, should provide a major boost to the textile industry. I believe that this will also simplify the calculation of drawback rates for garment exporters.

In my proposals on customs duties, I have proposed a reduction in customs duty on crude oil from 35 per cent to 25 per cent. This is part of a restructuring and rationalisation of the duty structure aimed at encouraging efficient refineries and enabling me to shift the duties from the input stage to the product stage. I propose to make up the loss on customs duty by adjusting the excise duty upward from 10 per cent to 15 per cent on all petroleum products except LPG and kerosene. The proposed changes in customs and excise duties taken together are revenue neutral and will have no impact on the administered prices of petroleum products.

Honourable Members are aware that almost all articles of mass consumption are already exempt from excise duty and a large number of other widely consumed articles carry a rate of only 10 per cent. I propose to exempt some more articles from excise duty. They are:

(a) Vanaspati and margarine;

(b) Writing and printing paper supplied to all State Text Book Corporations;

(c) Animal fats and oils;

(d) Asbestos fibre;

(e) Metallic ores; and

(f) Tapioca products.

I propose to reduce the duty on the following articles:

(a) Tooth paste from 20 per cent to 10 per cent;

(b) Detergents, from 30 per cent to 25 per cent;

(c) Cartons, boxes and bags made of paper and paperboard, from 20 per cent to 10 per cent;

(d) Glassware produced by semi-automatic process, from 20 per cent to 10 per cent;

(e) Glassware used for table, kitchen, etc. from 15 per cent to 10 per cent;

(f) Articles of asbestos cement, from 25 per cent to 20 per cent; and

(g) Ceramic articles, other than glazed tiles, from 20 per cent to 15 per cent.

I also propose to raise the exemption limit for footwear from Rs. 50 to Rs. 75 per pair.

The rates of excise duty on motor vehicles are not in consonance with the accepted classification of such vehicles. I therefore propose the following rationalisation:

(a) Duty on motor cars and other motor vehicles principally designed to carry not more than six persons, excluding the driver will remain unchanged at 40 per cent.

(b) Duty on motor vehicles principally designed to carry more than 6 persons but not more than 12 persons, excluding the driver—20 per cent.

(c) Duty on other motor vehicles for transport of persons or goods—15 per cent.

There is no change in the duty on two-wheelers or tractors.

If there is one area in which a Finance Minister can both tax and please, it is cigarettes. Today, however, I shall please you only in a small way by proposing modest increases in the specific duties on cigarettes ranging from about 5 per cent to 7.5 per cent. In the case of non-filter cigarettes, not exceeding 60 mm in length, popularly called mini cigarettes, I propose to raise the tax by 25 per cent from Rs. 60 per thousand to Rs. 75 per thousand.

In order to encourage R&D efforts in India I propose to exempt goods developed and patented in India and concurrently in specified countries from the levy of excise duty for a period of three years. I am also rationalising the exemption from customs duty for import of equipment and consumables for R&D institutions.

I have proposed the addition of potassium chlorate, copper powder and Cigarette lighters to the list of goods eligible for duty exemption under the SSI scheme. The reduction in import duties proposed elsewhere will also substantially benefit the small scale industries. In order to benefit hundreds of small scale manufacturers of matches I have decided to dispense with the physical control system operating on them and introduce the self-removal procedure freeing them from the day to day bother of control. I hope SSI match units will respond with substantial increase in payment of excise duties.

I have proposed rationalisation of rates and exemptions both in customs and excise in several other areas. I would not like to take the time of the House by going into these details.

Our excise procedures are outdated and not in tune with the times. They need to be modified. They should encourage voluntary compliance with tax laws by the tax payers. With effect from 1 October 1996, assessees would no longer be required to furnish copies of invoices along with the monthly returns. All that they would be required to furnish to the excise department will be a simple Return indicating the duty paid on self-assessment basis. Wherever possible the assessees' computers could also be linked to the Department's computers for online assessment.

I also propose to introduce a scheme of selective audit by the excise officers and dispense with the existing scheme of routine examination and checking of returns and documents furnished by the assessees. This scheme would also come into force from 1 October 1996.

I am sure that these changes would be widely welcomed by the manufacturers who are required to pay excise duties and I expect them to comply with the laws faithfully. However, I wish to affirm government's resolve to deal with tax evaders sternly. I am proposing suitable changes in the Customs and Excise Acts to provide for mandatory penalty, together with interest for evasion of duties on account of fraud, collusion, misstatement or suppression of facts. Henceforth, the mandatory penalty for evasion of duty on these counts shall be equal to the amount of duty evaded. Tax evaders would also be required to pay interest starting from the first day of the succeeding month in which the duty evaded ought to have been paid and also face criminal prosecution.

Mr. Speaker, Sir, the Central Excise and Salt Act, 1944, reminds us of the colonial era when excise duty was collected on salt. There is no excise duty on salt and hence the reference to salt is outdated. I propose to delete all references to salt.

The MODVAT scheme which provides for duty credit on inputs and capital goods has been liberalised considerably over the past few years. Still, there are problems about the coverage of certain inputs and capital goods. I propose to clarify the scope of eligible capital goods by specifying the heading and sub-headings of the tariff relating to capital goods in the MODVAT Rules. It is also a matter of concern that there is misuse of the MODVAT credit scheme. At present, MODVAT invoices can be issued by any dealer registered with the excise department and this facility is reportedly being misused. Therefore, I propose to restrict the issue of Modvatable invoices by dealers upto two stages. Suitable provisions are also being made in the MODVAT Rules for charging of interest in the case of wrong availment of MODVAT credit and for mandatory penalty for misuse of MODVAT facility.

The tax on services has come to stay. With a view to widening the tax base, I propose to bring in advertising services, radio paging services and courier services under the tax net. The tax on these services will be at the rate of 5 per cent. While this measure is expected to yield Rs. 150 crore in a full year, I am taking credit only of Rs. 70 crore in the current year.

My proposals relating to reduction in customs duties are estimated to result in a loss of Rs. 650 crore in the remaining part of the current financial year. However, by taking into account receipts from the special customs duty estimated to be Rs. 1,600 crore, there will be a net gain of Rs. 950 crore in customs revenue.

In the case of excise duties, including additional excise duties, a gain of Rs. 760 crore is estimated. Of this, the States are likely to get Rs. 384 crore as their share of excise duties.

I now have something to say on behalf of my colleague, the Minister of Communications. Postal rates, some of which were last revised in 1990, do not meet even the direct cost of most of the services resulting in increasing budgetary support. Notwithstanding this, no change in the rates of ordinary postcard, letter, parcels and other postal services is being proposed. A modest increase is proposed only in respect of two services which are used for business and commercial purposes. The rate of the printed post card is being increased from 60 p. to Re. 1 and the registration fee is being increased from Rs. 6 to Rs. 8. It has also been decided to introduce a new category of postcard, called Competition Postcard, which alone may be used for responding to any competition organised on or through television, radio, newspapers or magazines. It is proposed to remove the unintended subsidisation by fixing the tariff for this category of postcard at Rs. 2. The changes will take effect from a date to be notified after the Finance Bill is passed. The revisions proposed are estimated to yield a modest revenue of Rs. 38 crore in 1996-97, still leaving a large postal deficit.

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.

My budget proposals have many implications both for the expenditure side and the revenue side. However, Hon'ble Members will be pleased to know that the end result is satisfactory. The revenue deficit in 1996-97 is placed at Rs. 31,475 crore or 2.5 per cent of GDP which is significantly lower than Rs. 33,331 crore in RE 1995-96 or 3 per cent of GDP. The fiscal deficit comes to Rs. 62,266 crore in 1996-97, which is lower than the figure of Rs. 64,010 crore in RE 1995-96. As a percentage of GDP, the fiscal deficit is 5 per cent in 1996-97 compared to 5.9 per cent in the previous year. I hope to do better in my next budget and move along the path of reducing the fiscal deficit to below 4 per cent.

Mr. Speaker, Sir, at the end of this exercise, I ask myself what is a budget about? While it is a measure of the health of the economy, it is also a mirror to the travails and aspirations of the people, 2,000 years ago, Saint Tiruvalluvar laid down the golden rule for the King's Ministers:

"Iyattralum, eettalum, kattalum, katta
Vakuthalam Vallath Arasu"

(To be able to increase wealth, to lay it up and guard, And also well to distribute it, marks a royal lord.)

I have made an attempt to raise revenues without putting any burden upon the poor, to allocate large resources for agriculture, irrigation, infrastructure and the social sector, to provide more funds for basic minimum services, to give tax reliefs to the salaried and the middle classes and to promote savings and investment. I have strived to serve the seven objectives that I declared at the outset.

The Common Minimum Programme is absolutely right when it says that the country's GDP needs to grow at over 7 per cent per year in the next 10 years in order to abolish poverty and unemployment.

I believe that our economy is on a high growth curve. Wisdom dictates that we remain on that curve. In order to do so, we need more reforms, not less. We need more resources, not less. We need more discipline, not less. And we need more compassion, not less. If we remain true to the Common Minimum Programme, we shall overcome our difficulties and take India to the frontline of the nations of the world. This budget, my maiden effort, attempts to blend—I hope in the right proportions—courage and compassion, reform and restraint and growth and social justice.

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