

the Speaker may direct, one member from among themselves to serve as a member of the National Welfare Board for Seafarers, subject to the other provisions of the said Rules."

*The motion was adopted*

**(iii) Coconut Development Board**

THE MINISTER OF STATE IN THE DEPARTMENT OF AGRICULTURE AND COOPERATION IN THE MINISTRY OF AGRICULTURE (SHRI JAYANTILAL VIRCHANDBHAI SHAH): I beg to move:

"That in pursuance of sub-section 4 (e) of Section 4 of the Coconut Development Board Act, 1979, the members of this House do proceed to elect, in such manner as the Speaker may direct, two members from among themselves to serve as members of the Coconut Development Board, subject to the other provisions of the said Act."

MR. SPEAKER: The question is:

"That in pursuance of sub-section 4 (e) of Section 4 of the Coconut Development Board Act, 1979, the members of this House do proceed to elect, in such manner as the Speaker may direct, two members from among themselves to serve as members of the Coconut Development Board, subject to the other provisions of the said Act."

*The motion was adopted*

**(iv) Committee on the welfare of Scheduled Castes and Scheduled Tribes**

SHRI ANADI CHARAN DAS (Jaipur): I beg to move:

"That the members of this House do proceed to elect in the manner required by sub-rule (3) of Rule 254 read with sub-rule (1) of Rule 331B of the Rules of Procedure and Conduct of Business

in Lok Sabha, two members from among themselves to serve as members of the Committee on the Welfare of Scheduled Castes and Scheduled Tribes for the unexpired portion of the term of the Committee *vice* Dr. C. Silvera resigned from the Committee and Shri Nakul Nayak ceased to be a member on his appointment as Parliamentary Secretary."

MR. SPEAKER: The question is:

"That the members of this House do proceed to elect in the manner required by sub-rule (3) of Rule 254 read with sub-rule (1) of Rule 331B of the rules of Procedure and Conduct of Business in Lok Sabha, two members from among themselves to serve as members of the Committee on the Welfare of Scheduled Castes and Scheduled Tribes for the unexpired portion of the term of the Committee *vice* Dr. C. Silvera resigned from the Committee and Shri Nakul Nayak ceased to be a member on his appointment as Parliamentary Secretary."

*The motion was adopted*

12.45 hrs

STATEMENT BY MINISTER

**Current Fiscal Situation**

[English]

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA): I rise to make this statement before the House on some strategic issues in the management of the economy. It is a difficult conjuncture. The large fiscal imbalances persist. The balance of payments situation is serious. The inflationary pressures on the price level are considerable. It is essential for me to put the facts in perspective and share our thinking on these problems with honourable members.

The performance of the economy dur-

ing the second half of 1980s was impressive in terms of growth rates, but this was associated with the emergence of macro-economic imbalances. In recent years, we have witnessed a widening gap between the income and the expenditure of the Government which has led to mounting budget deficits. At the same time, there has been a steady increase in the difference between the income and the expenditure of the economy as a whole, which has led to persistent current account deficits in the balance of payments.

During the Seventh Plan period, the budget deficit of the Central Government, which is only a partial measure of fiscal imbalance, fluctuated around a level of 2 per cent of GDP. The revenue deficit of the Central Government rose from 2.2 per cent of GDP in 1985-86 to 2.8 per cent of GDP in 1989-90. However, the fiscal deficit of the Central Government, which measures the difference between revenue and total expenditure, was more than 8 per cent of GDP throughout the Seventh Plan period, as compared with 6.1 per cent in 1980-81 and 3.2 per cent in 1974-75. This fiscal deficit had to be met by borrowing. The burden of servicing this debt has now become onerous. Interest payments alone constitute 20 per cent of the total expenditure of the Central Government and 4 per cent of GDP, compared with 10 per cent and 2 per cent respectively in 1980-81.

The balance of payments situation has also been under considerable strain in recent years. During the Seventh Plan period, the current account deficit was 2.2 per cent of GDP as compared with 1.3 per cent of GDP during the Sixth Plan period. The persistence of such large current account deficits, which were inevitably financed by borrowing from abroad, led to a continuous increase in external debt which, including NRI deposits, rose from 17.1 per cent of GDP at the end of 1984-85 to 22.6 per cent of GDP at the end of 1989-90. Consequently, the debt service burden also registered a significant increase from 12.8 per cent of current account receipts and 21.5 per cent of export earnings in 1984-85 to 21.9 per cent of current account re-

ceipts and 30.7 per cent of export earnings in 1989-90.

It is clear that, even at the beginning of the current financial year the economy was in a serious fiscal crisis and faced a very difficult balance of payments situation. It is, therefore, no surprising that the impact of the Gulf Crisis on an already vulnerable economy is dramatic.

The Gulf Crisis has led to a deterioration in the fiscal situation because: the OCC surplus would not materialise; the burden on account of fertilizer subsidies would increase; the cost of repatriation of Indian citizens from Kuwait would have to be borne by the exchequer; and there would be shortfalls in revenue attributable to the squeeze on non-oil imports and the contraction of output. The impact of the Gulf Crisis on the balance of payments situation is also very large. The cost of POL imports which was estimated at Rs. 6400 crores in April 1990 is now likely to be in the range of Rs. 12000 crores. What is more, we would lose approximately Rs. 800 crores in remittances from, and exports to, Kuwait and Iraq. In addition, the Gulf Crisis has accentuated inflationary pressures and expectations in the economy.

Some developments at home have accentuated our difficulties. The shortfall in the domestic production of crude oil for 1990-91 is estimated at 2.4 million tonnes, attributable in part to disturbances in Assam, which, depending on international oil prices, may cost us as much as Rs. 1000 crores in foreign exchange. The disturbed law and order situation in the past few months has also led to some contraction of output and disruption of transport which would affect revenues in the form of excise duties.

Today, the soft options stand exhausted. It is now imperative for us to start making the necessary macro-economic adjustments. We should have no illusion that fiscal imbalances accumulated over several years can be eliminated at one stroke. But it is essential that we begin to introduce correctives. Even this will mean hard decisions and difficult

[Sh. Vashwant Sinha]

choices. If we are to restore the economic health of the nation, we must face reality rather than ignore it. In this context, we attach a very high priority to fiscal consolidation. Thus, austerity would be the watchword of the Government, not simply in the current financial year but also in 1991-92 and beyond.

For the current financial year, the previous Government had already announced a Gulf surcharge of 25 per cent on the domestic prices of petroleum products and a further surcharge of 7 per cent on Corporation tax. This was necessary but not sufficient to neutralise the impact of the Gulf Crisis on the fiscal situation. It appears that the increase in the domestic prices of petroleum products would not be sufficient to finance the entire increase in the import bill for crude oil and petroleum products, on account of the increase in the international oil prices, during the current financial year. In order to ensure that higher international oil prices do not impose an indirect fiscal burden on the economy, the Gulf surcharge of 25 per cent on domestic prices of petroleum products would be continued during the next financial year. We cannot wait and allow a serious deterioration in the budgetary situation. Therefore, without losing any time, I have introduced a package of measures to mobilise additional revenue. Taken together, these measures would mobilise about Rs. 1200 crores of additional revenue during the current financial year.

In the sphere of indirect taxes, the increase in auxiliary customs duties would yield Rs. 254 crores, while the increase in excise duties on aerated drinks and man-made fibres/yarns would yield Rs. 137 crores in the remaining part of the year. In the sphere of direct taxes, I am introducing a Bill with two new proposals. First, it is proposed to raise the rate of surcharge on Income tax from 8 per cent to 12 per cent in the case of non-corporate taxpayers whose income exceeds Rs. 75000. Second, it is proposed to restrict the deduction for depreciation in the current accounting year to 75 per cent of

what would otherwise be allowable. These two direct tax proposals are estimated to yield Rs. 60 crores and Rs. 750 crores, respectively, during the current financial year. In addition, all steps are being taken to improve revenue collection through better tax compliance and administration. I am sparing no effort in this task.

At the same time, I have directed that there should be a strict control on expenditure and that we should exercise the maximum possible restraint. The combination of measures in the spheres of both revenue and expenditure would ensure that the fiscal deficit of the Central Government does not exceed 8.3 per cent of GDP in the current financial year, as compared to 8.9 per cent of GDP in 1989-90.

The Government would continue the process of fiscal correction and consolidation during the next financial year. We hope to reduce the fiscal deficit of the Central Government significantly so that it is about 6.5 per cent of GDP in 1991-92. Such a reduction would be the beginning of our transition to a sustainable fiscal regime, over a period of three years, in which the fiscal deficit returns to a range of 3 to 4 per cent of GDP as it was in the mid-1970s. For this purpose, the Government shall exercise a strict control over expenditure and rationalise subsidies so that they are better directed towards the poor. At the same time, the Government would improve revenue collections. The combination of revenue and expenditure measures to achieve the desired fiscal corrections will be formulated in the coming months and implemented during the next financial year.

The task before us is indeed difficult but it is manageable. What we need is a firm resolve on the part of the Government, combined with the support of the Parliament and the people. The much needed fiscal consolidation would enable us to ease the inflationary pressures in the economy and manage the difficult balance of payments situation. The economy has the resilience and the strength in terms of a potential for

sustained growth in the agricultural sector and the industrial sector, supported by our physical infra-structure and human resources. The basic strength is there to overcome the crisis. We must attach the highest priority to restoring the health of the economy and making it buoyant. I seek your cooperation in this national endeavour.

12.50 hrs

DEMANDS FOR SUPPLEMENTARY  
GRANTS (GENERAL)

[English]

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA): I beg to present a statement of (Hindi and English versions) showing the Demands for Supplementary Grants in respect of the Budget (General) for 1990-91. [Placed in Library See No. LT 1598/90]

12.50 1/4 hrs

DEMANDS FOR SUPPLEMENTARY  
GRANTS (ASSAM), 1990-91

[English]

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA): I beg to present a settlement of (Hindi and English versions) showing the Demands for Supplementary Grants in respect of the Budget (Assam) for 1990-91. [Placed in Library See No. LT 1599/90]

12.50 1/2 hrs

TAXATION LAWS (AMENDMENT) BILL\*

[English]

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA): I beg to move for leave to introduce a Bill further to amend the Finance Act, 1990 and the Income-Tax Act, 1961.

MR. SPEAKER: The question is:

"That leave granted to introduce a Bill further to amend the Finance Act, 1990 and the Income-Tax Act, 1961."

*The motion was adopted*

MR. SPEAKER: The leave is granted. The Minister may now introduce the Bill.

SHRI YASHWANT SINHA: I introduce\*\* the Bill.

*(Interruptions)*

12.51 hrs

RE. PRICE OF RICE DISTRIBUTED  
THROUGH RATION SHOPS

[English]

PROF. P.J. KURIEN (Mavelikara): The price of rice distributed through ration shops has been increased by 45 paise per kilo, by this Government. This is a decision which cannot be justified because there is already all round price increase. Therefore, this Government should withdraw this notification.

*(Interruptions)*

THE PRIME MINISTER (SHRI CHANDRA SHEKHAR): It has been brought

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\*\*Introduced with the recommendation of the President.