

Budget 1993-94

Speech of

Shri Manmohan Singh
Minister of Finance

27th February, 1993

PART A

Sir,

I rise to present the budget for 1993-94.

2. It is now twenty months since our government took office: twenty eventful months in which we have worked ceaselessly to overcome the very difficult economic situation we inherited. In June, 1991, the economy was in the throes of an unprecedented balance of payments crisis. A savage squeeze had been imposed on imports; international confidence had collapsed; industrial production was falling; and inflation was on the rise.

3. The sense of crisis is now behind us. We have restored a measure of normalcy to our external payments. The annual rate of inflation has been reduced from the peak of 17% in August, 1991 to below 7%. International confidence has been restored. Agriculture has performed well in the current year and industrial production is beginning to recover. The growth of the economy, which had declined to 1.2% in 1991-92, is expected to be around 4% in 1992-93. The economic strategy we have followed, resting on the twin pillars of fiscal discipline and structural reform, has been vindicated by the decisive upturn.

4. Fiscal discipline was necessary because the government had lived for too long beyond its means. The rising fiscal deficits of the Central Government were the root cause of our balance of payments problem, rising prices and high rates of interest. We have made good progress by reducing the fiscal deficit from 8.4% of GDP in 1990-91 to about 5% in the current year.

5. Policies of structural reform aimed at increasing efficiency in resource use and improving our international competitiveness were crucial for providing a lasting solution to the payments crisis. It was necessary to restructure our trade and industrial policies, encourage efficiency through greater domestic competition, allow our producers to have access to imports at reasonable rates of duty, encourage foreign investment and upgradation of technology, and progressively integrate the Indian economy with the world economy. Without these reforms, India would face the certain prospect of entering the 21st century as just about the poorest country

in Asia. I am convinced that the Indian people would never tolerate such an outcome. India's natural and human resources entitle us to think in terms of becoming a major powerhouse of the world economy. Our reforms are inspired precisely by this vision.

6. The policy initiatives we have taken do not in any way reduce our commitment to take care of the poor and the disadvantaged. On the contrary, we have taken steps to minimise the burden of adjustment on the poor and working classes. We have disproved those professional prophets of gloom who were predicting millions of people becoming unemployed.

7. When we embarked on this path, we knew that the benefit of our policies would only be seen after three to four years. Patience is therefore essential. Nevertheless, Honourable Members can take comfort that the early results are certainly encouraging. Inflation is down and production is beginning to recover. Fears of being swamped by imports as a consequence of liberalisation have proved to be grossly exaggerated. Despite the virtual removal of import licensing in 1992-93, total imports in 1992-93 in US dollars are likely to be lower than in 1990-91. Although the rupee has been floated for most current account transactions, the market exchange rate has remained relatively stable. The investment climate has improved considerably. Corporate capital issues by non-Government public limited companies in April-October, 1992 were 67 percent higher than in the same period of the previous year. Loans sanctioned by financial institutions in the first ten months of 1992-93 were 49% higher than in the same period of the previous year. Foreign investors are showing active interest in investment in many sectors, including critical infrastructure sectors such as power and petroleum. Since August 1991 the approvals given for foreign investment proposals upto the end of January amount to an equity investment of \$ 2.3 billion. These are of course only approvals at this stage and actual flows will take time to materialise, but they certainly indicate a substantial potential for larger investment inflows in the future.

8. Nevertheless, there is no room for complacency. Fiscal imbalances are still large. The efficiency and resource generating capacity of public sector enterprises are still very inadequate. Inflationary expectations have not yet been purged from the system and inflationary pressure could easily build up again if fiscal discipline is relaxed. The economy is still vulnerable to external shocks and loss of confidence. The riots and disturbances in December and January have also taken their toll, by disrupting domestic production and exports and by casting doubts about the stability of our polity and society and our determination to persevere with the difficult task of economic reform. We can ill afford such doubts.

9. The priorities for economic policy, at this critical stage of our economic restructuring, are very clear:

- We must continue with the fiscal correction to ensure that inflationary expectations are effectively curbed; to this end, the fiscal deficit both at the Centre and in the States must be further reduced as a percentage of GDP.
- The room for fiscal maneuver gained by restraining expenditure over the past two years must be used to give a strong fillip to development expenditure in 1993-94, especially for programmes of poverty alleviation,

rural development and the vital social services such as education and health.

- The hesitant industrial recovery must be converted into a strong revival in 1993-94, which can then be followed by a vigorous boom in the last three years of the Eighth Plan.
- We must make further progress with our announced strategy of tax reform, moving to a simpler tax system, with moderate rates and much greater focus on compliance.
- We must ensure that our economic strategy gives full support to agriculture on which the livelihood and well being of the majority of our people depend, and also to agro-processing industries, which have a tremendous potential for increasing employment and income in rural areas.
- Finally, exports must be made a truly high priority national endeavour so that we can move as quickly as possible to managing the balance of payments without the need for continued exceptional financing from abroad. This is the only meaningful route to self-reliance.

10. The expenditure and tax proposals for 1993-94, which I will be presenting shortly, have been tailored to meet these objectives.

11. Adequate availability of credit at reasonable rates of interest will be critical in converting this year's weak industrial recovery into a strong revival next year. One factor behind the inadequacy of credit for the commercial sector is the preemption of a large proportion of banks' resources by the government at below-market rates of interest through the Statutory Liquidity Ratio (SLR). In 1992-93 we began the process of reducing the SLR in order to release a larger volume of resources for commercial lending. Our objective is to reduce the SLR further from an effective average level of about 36 percent at present to about 25% over the next 3 years. The precise phasing of the reduction will be announced by Reserve Bank of India, taking into account the emerging aggregate monetary and credit situation.

12. The reduction in inflation achieved thus far justifies a reduction in interest rates. Accordingly, the Reserve Bank of India is separately notifying a reduction in the maximum interest rate on bank deposits from 12% to 11%. Simultaneously, the minimum lending rate of 18% on commercial advances is being lowered to 17%. It is my expectation that the lowering of interest rates will help the economic recovery in the coming year. As inflation abates, there will be scope for further reduction in interest rates.

13. No economic strategy can succeed in our country which does not recognise the central role of agriculture in supporting broad-based and equitable development. The government is firmly committed to ensuring that agriculture, agro-processing and rural development are given top priority in the design of economic policy.

14. A major instrument for encouraging agricultural production and making it profitable is the assurance of remunerative prices to the farmers. Procurement prices for the last kharif crop and the forthcoming rabi have been handsomely raised to ensure that farmers are compensated for increases in the cost of inputs. It is also the policy of the Government not to place administrative restrictions on

movements of agricultural products within the country. Our farmers must have the full benefit of prices available in the domestic market.

15. Agricultural credit is another critical input for agricultural, and more broadly, rural development. The flow of rural credit from institutional sources is expected to jump from Rs.13,800 crore during 1992-93 to Rs.16,500 crore during 1993-94, an increase of 20%. NABARD's investment refinance support to banks will increase by 22% from Rs.2,300 crore in the current year to Rs.2,800 crore in 1993-94. Within this total, NABARD has evolved an innovative package of measures to ensure special attention to priority areas. Term loans for minor irrigation will support the sinking of 3.75 lakh wells and installation of 6 lakh pump sets. The rate of NABARD refinance of bank loans is being increased to 90% in the case of North Eastern States and also of investments in 100% export oriented units in agriculture and allied activities. NABARD will also take up pilot projects for intensive development of rural industries in five selected districts with an outlay of Rs.125 crore. NABARD is setting up a Venture Capital Fund, with an initial corpus of Rs.5 crore, to assist new and innovative investments in farm and non-farm sectors, and a Cooperative Development Fund with an initial corpus of Rs.10 crore to help improve management systems and skills in cooperative banks. In 1993-94, we shall pay special attention to revitalising the agricultural credit system so that it becomes a more effective instrument for increasing capital formation and productivity of agriculture.

16. Our strategy of gradually reducing the high levels of protection to Indian industry, and integrating our economy with the world economy, will clearly help Indian agriculture. It will moderate the high industrial prices which the farmer has to pay. It will also ensure a more competitive exchange rate, at which our agricultural and agro-based exports will be much more profitable. I venture to suggest to Honourable Members that in the medium run, these changes will be far more significant in favouring agricultural producers than any programme of special subsidies could ever be.

17. In my Budget speech last year I had indicated that the Government intended to implement the recommendations of the Narasimham Committee on financial sector reform in stages. The securities scam which was discovered in April 1992 has revealed certain weaknesses which add urgency to the need for financial sector reform. A major reform initiated last year was the introduction of new norms for income recognition, and provisioning for bad debts and the prescription of new capital adequacy requirements in line with internationally accepted Basle Committee norms. The new norms will ensure that the books of the banks will reflect their financial position more accurately and in accordance with internationally accepted accounting practices. These changes will improve our ability to evaluate the performance of the banks and will also make for more effective bank supervision.

18. Because of the new norms, however, banks will have to make large provisions amounting to over Rs.10,000 crore for bad and doubtful advances in their portfolios. As the provisioning norms are being introduced in two stages, the first impact will be felt in the year ending 31 March 1993, with a further impact next year. The resulting losses will eat into the capital of the banks, which is already inadequate given the new capital adequacy norms. In order to protect the

viability and financial health of the Indian banking system I am making provision for a large capital contribution of Rs.5,700 crore to the nationalised banks in 1993-94 to meet the gap created by the application of the first stage of the provisioning norms. There will be no immediate net outgo from the budget, as the Government's contribution is in the form of Government bonds; but the interest payment on these bonds, and their ultimate redemption will be a real burden on the budget in future. This is the price we have to pay for having long tolerated management practices in the banks and types of lending which paid inadequate attention to portfolio quality and recoveries. I may add that while undertaking such a large injection of capital into the banks, specific commitments will be required from each bank to ensure that their future management practices ensure a high level of portfolio quality so that the earlier problem does not recur.

19. Even this large injection of capital will only solve the immediate problem. Additional losses will arise because of the second stage of provisioning next year. Besides, the capital adequacy requirements are also being introduced in a phased manner and there will be additional capital needs on this account in 1994-95 and 1995-96. This burden cannot be borne entirely by the budget without eating into scarce resources which are desperately needed for development, especially in the rural areas. Government has, therefore, decided that the State Bank of India, as well as other nationalised banks which are in a position to do so, will be allowed to access the capital markets to raise fresh equity to meet their shortfall in capital requirements over the next three years. The additional capital thus mobilised will help our banks to expand their lending which would otherwise be constrained by capital inadequacy. Government will, continue to retain majority ownership, and therefore effective control, in the public sector banks. Necessary legislation to give effect to this decision will be introduced later in the year.

20. If banks are to make provisions for bad debts, they must also be able to realise the security on their bad debts. At present the legal process for realising bank dues is tortuous, and cases take several years in the courts. Government has, therefore, decided to set up Special Tribunals to expedite legal action by the banks to enforce recoveries. Legislation to this effect will be introduced in the course of the year.

21. The securities scam has also revealed weaknesses in the existing system of supervision of banks. Following the recommendations of the Narasimham Committee, Reserve Bank of India has decided to strengthen its supervisory arrangements by setting up a separate Board for Financial Supervision within the Reserve Bank.

22. Parallel with reforms in the banking system we are vigorously pursuing reforms in the capital markets. We must ensure that trading and settlement take place with speed and transparency under appropriate rules and regulations designed to ensure investor protection. The Securities and Exchange Board of India, which was given statutory status and powers twelve months ago, has been entrusted with the task of bringing about this transition. As promised in my last Budget speech, the office of the Controller of Capital Issues in the Ministry of Finance has been abolished, and almost all powers under the Securities Contract (Regulations) Act have been delegated or transferred to SEBI.

23. Several important steps have been taken in the current year to reform the capital market. Rules and regulations have been notified to deal with insider trading, the operation of mutual funds, registration of brokers, merchant bankers and other intermediaries. The scheme for allowing Foreign Institutional Investors to invest in the capital markets announced in my last Budget speech has been implemented and a number of approvals given. Several private sector mutual funds have recently been given clearances by SEBI. A company has been incorporated for the establishment of a National Stock Exchange which is expected to operate as a model stock exchange with member brokers all over the country trading in the exchange through modern telecommunication facilities. Proposals are also being considered for the establishment of a centralised depository with a National Clearance and Settlement System.

24. We are determined to ensure that further reforms of the capital market are implemented in the course of 1993-94 so that the capital market can mobilise large funds for investment. On the basis of experience gained, the Government has decided to amend the Securities and Exchange Board of India Act to give SEBI additional powers in order to increase its effectiveness.

25. With reforms underway in the banking sector and in the capital markets, it is necessary to address the need for similar reforms in the insurance industry aimed at introducing a more competitive environment subject to suitable regulation and supervision. I propose to appoint a High Powered Committee to go into these issues in depth and submit its recommendations within six months.

26. In my Budget speech last year, I announced the introduction of a new system of exchange rate management under which a dual exchange rate regime was introduced, and import licensing was eliminated on most items of capital goods, raw materials, intermediates and components. These items became freely importable against foreign exchange purchased in the market. The system has worked fairly well and the market exchange rate has been remarkably stable. The existence of a dual rate, however, hurts exporters and other foreign exchange earners who have to surrender 40% of their earnings at the official rate, getting the benefit of the higher market rate on only 60 percent. Many exporters have said that this amounts to a tax on exporters of goods and services whose continuation cannot be justified at a time when exports must receive our fullest support. There is merit in this point of view, and the experience of the past year gives ground for confidence that we can unify the exchange rate and still manage the balance of payments with a reasonable degree of stability in the exchange rate. The Government has therefore decided to eliminate the dual rate arrangement. All exporters, as well as other foreign exchange earners such as our workers abroad, will henceforth be allowed to convert 100% of their earnings at the market rate. All imports will also henceforth have to be paid for at the market rate. The details of the new system are being notified separately by Reserve Bank of India. I expect that this will give a major boost to exports, and will further encourage foreign exchange flows into official channels.

27. Several other steps are also being taken to stimulate exports. The Commerce Ministry is reviewing the list of items whose exports are subject to one or other restriction with a view to removing as many restrictions as possible. Reserve Bank of India is taking steps to ensure that adequate credit will be available for exports. Banks have already been asked to ensure that export credit amounts to at least

10% of their total advances. The interest rate on rupee export credit is being reduced by one percentage point. As a further measure of support for exports, the interest tax will be waived in the case of export credit from banks. I will have more to say on incentives for exporters when I come to the tax proposals in the Budget.

28. A new policy towards foreign investment has been an integral part of our strategy of modernising the economy, and establishing global linkages which will be of critical importance in the emerging world economy. I have already mentioned that the initiatives taken in this area thus far have yielded encouraging results. I have no doubt that as our reforms proceed and gain momentum, we can expect to attract a substantial share of the private investment that is presently flowing to many developing countries in Asia. The Government has signed the Multilateral Investment Guarantee Agency (MIGA) convention and we expect to join MIGA formally as soon as membership procedures are completed. Several countries, including the UK, Germany and the United States, have expressed an interest in signing bilateral investment treaties. The Government has indicated a willingness to enter into bilateral negotiations on this issue.

29. Industrial modernisation, and especially the creation of internationally competitive industries, requires a massive expansion of and qualitative improvement in infrastructure. This is especially true of power generation, telecommunications and roads. Traditionally, these areas have been the preserve of the public sector. Substantial expansion of public investment in these areas is certainly necessary. However, the needs of the country are far beyond the capacity of the public sector to deliver in a reasonable time frame. The Government has, therefore, adopted a policy of encouraging private sector involvement and participation in these areas to supplement the efforts being made by the public sector. In order to attract such investment it will be necessary to make changes in policies, procedures and the regulatory framework in these sectors. The Government proposes to make such changes as the need arises.

30. Over the past two years, we have taken several steps to remove unnecessary bureaucratic interference in economic activity in order to create an environment in which the energies of our people can be harnessed to maximise innovation, production and growth. However, I am constantly told that despite liberalisation at the policy level, our procedures in many areas remain archaic and cumbersome. Many of our laws also need thorough review to bring them in line with the emerging economic environment. The Government has therefore decided that a special review group will be constituted in each Ministry to make a review of existing laws and procedures to identify changes needed in the light of the new policies. I hope the State Governments which have a crucial role to play in promoting development and investment in the new environment will also take similar steps at their end.

31. Let me now turn to the revised estimates for 1992-93.

32. We have tried to maintain strict control over expenditure, but certain increases over the Budget estimates were unavoidable. An additional provision of Rs.1,500 crore has to be made for food, fertiliser and export subsidies. The additional requirement of food subsidy is because of the delay in increasing issue prices to absorb the impact of higher procurement prices. The higher provision for export subsidy is because of settlement of claims in the pipeline for cash compensatory support and continuance of benefits for deemed exports. In respect of fertilisers the

increase is due to the reduction in prices of urea and higher input costs. In addition, I have provided Rs.340 crore as one-time assistance to farmers for purchase of fertilisers whose prices were decontrolled. Ministry of Home Affairs has to be provided additional funds for meeting security-related expenditure in the wake of disturbed conditions in certain parts of the country. While an assessment of the actual requirements is being made, I have for the present included in the Revised Estimates an additional provision of Rs.285 crore. If a further provision becomes inescapable, we shall come to the House for the necessary Supplementary Grants. These and other increases have been offset by a reduction of Rs.1,300 crore in the requirements for loans to States against small savings collections. The decline in small savings collections has been a matter of concern and Government has taken measures to improve the rate of return to the investors. As a consequence, the collections have shown an up-trend in recent months. As a result of all these developments, total non-plan expenditure is higher by Rs.3,278 crore as compared with the budget estimates.

33. On the plan side, there is an increase in budgetary support for the Central Plan for certain sectors. An additional provision of Rs.630 crore is being made for the National Renewal Fund, which is a key element in our strategy for economic reforms. Similarly an additional provision of Rs.250 crore has been made for strengthening schemes in the social sectors such as Health and Family Welfare. The provision for Rural Development is being augmented by Rs.500 crore.

34. Central assistance to State and Union Territory Plans is being augmented by Rs.1,228 crore mainly for externally aided projects where the pace of implementation justifies an allocation larger than in the Budget Estimates.

35. Taking Plan and non-Plan expenditures together, the total provision in the Revised Estimates is Rs.1,24,726 crore against Rs.1,19,087 crore in the Budget Estimates.

36. Against these additional expenditures, revenue receipts have also been higher because of better collections and higher royalty on offshore crude oil. Capital receipts under market loans and small savings receipts are lower than in the Budget Estimates; but this is offset by the higher receipts from 364-days treasury bills, which is a new instrument designed to develop a market for Government securities.

37. The total receipts in the Revised Estimates are Rs.1,17,524 crore compared to Rs.1,13,698 crore in the Budget Estimates. The Budget deficit is estimated at Rs.7,202 crore and the fiscal deficit for the year is now placed at Rs.36,722 crore. These figures are somewhat higher than envisaged in the Budget Estimates but within tolerable limits for macro-economic stability.

38. I now turn to the Budget Estimates for 1993-94.

39. The resource constraints facing us last year imposed a tight leash on the development programmes we could finance in 1992-93. The total size of the Central Plan in 1992-93 (BE) was only 12.6% higher than in the previous year. With the improvement in the fiscal situation achieved in the course of 1992-93, and the moderation in inflation, we are now in a position to give a boost to the Plan, while ensuring continued improvement in the fiscal deficit. Accordingly, the Central Plan outlay for 1993-94 has been fixed at Rs.63,936 crore which is almost 32% higher than the figure of Rs.48,407 crore in 1992-93.

40. The Central Plan will be financed to the extent of Rs.23,241 crore from budget support which is almost 26 per cent higher than the budget support of Rs.18,501 crore in 1992-93. The balance of the Central Plan outlay of Rs.40,695 crore will be met from internal and extra-budgetary resources compared with Rs.29,906 crore in 1992-93, representing a step-up of 36%. I am providing Rs.18,010 crore for Central assistance for States and UT Plans in 1993-94 compared to Rs.16,111 crore in 1992-93. The total budgetary support from the Central Government Budget to the Central and State Plans increases by almost 19% from Rs.34,612 crore in 1992-93 to Rs.41,251 crore in 1993-94.

41. The large increase in budget support for the Plan has enabled a substantial step-up in Central Plan programmes in the social sectors and rural development which depend upon budgetary resources. The outlay for the Department of Rural Development next year has been enhanced by a massive 62% to Rs.5,010 crore. Both employment generation and capital formation in rural areas will receive a major boost. The allocation for the Jawahar Rojgar Yojana is being increased to Rs.3,306 crore compared with the current year's level of Rs.2,046 crore. This is aimed at creating 1100 million mandays of employment. It is proposed to train 3.5 lakh young persons in rural areas under the Training of Rural Youth for Self Employment (TRYSEM) programme. For the rural water supply programme, the provision has been increased substantially from Rs.460 crore in 1992-93 to Rs.740 crore next year. Higher allocations have also been provided for the Integrated Rural Development Programme. The programmes of decentralised planning and development will receive a massive stimulus as a result of the strengthening of Panchayati Raj institutions as envisaged in the Constitution (72nd Amendment) Bill, 1991.

42. The development of human resources is given high priority in the Eighth Plan; Hon'ble Members are also aware that education is an area which is very close to my heart. I am, therefore, particularly happy to announce that the outlay for education is being increased from Rs.952 crore to Rs.1,310 crore, which is a step up of 37.6%. Universal provision of primary education and adult literacy of satisfactory quality, particularly for girls and women, is a pre-requisite for the modernisation of the economy and the society. I am happy to inform Honourable Members that our total literacy campaigns are breaking new grounds, and are now being implemented in 182 districts covering approximately 430 lakh adult learners. A new scheme is being launched for the improvement of primary education in educationally backward districts and in districts where the total literacy campaigns have been successful, leading to an enhanced demand for primary education. In these districts, districts specific and population specific plans for achieving universalisation of elementary education are being prepared. Twenty to twenty-five districts out of about 200 educationally backward districts where female literacy is below national average, will be taken up for preparation of districts plans in 1993-94. In the sphere of higher and technical education, modernisation and upgradation would receive high priority. Keeping in view the aspirations of the North Eastern region, the government has decided to set-up a university in Nagaland and an Indian Institute of Technology in Assam

43. For Health, the provision is Rs.483 crore, which is 60% higher than the level of Rs.302 crore in the current year's Budget. A major part of the provision will be for national programmes for control of communicable and other diseases. The Family Welfare programme is of overriding national importance; the provision under

this head is being stepped up from Rs.1,000 crore for the current year to Rs.1,270 crore for the next year. A programme to improve the quality of family planning services in Uttar Pradesh is being launched at a cost of US \$ 325 million, with assistance from USAID. In addition, with the aim of reducing maternal mortality, under the Social Safety Net Scheme, assistance will be provided for improvement of infrastructure at Primary Health Centres in 90 demographically backward districts.

44. The National Commission for Women set up last year is looking into various important issues relating to women. For the integrated child development services the provision is Rs.474 crore compared to Rs.360 crore in the current year. This will enable us to strengthen the infrastructure set up of the scheme. The provision for the Ministry of Welfare has been increased from Rs.530 crore to Rs.630 crore. This includes Rs.73 crore for the liberation and rehabilitation of Safai Karmcharis. A provision of Rs.247 crore has been made for special Central assistance for Scheduled Castes component plan. The operations of the National Scheduled Castes Finance and Development Corporation and the National Backward Classes Finance and Development Corporation will be further expanded.

45. The Government regards agriculture as a sector of prime importance for the national economy. The budgetary allocation for the plan schemes of the Ministry of Agriculture including Animal Husbandry and Dairying is being increased by 36% from Rs.1,408 crore to Rs.1,918 crore. In addition, the bulk of the outlay on agriculture is in the State Plans.

46. The requirements of the infrastructure sectors such as Petroleum and Natural Gas, Power, Telecommunications, Railways and Transport have also not been neglected. Investment programmes in these sectors are implemented through public enterprises or departmentally run commercial undertakings and these organisations are expected to finance their plan outlay through their internal and extra budgetary resources. The plan outlay for Petroleum and Natural Gas has been nearly doubled to Rs.12,114 crore from the current year's level of Rs.6,208 crore. The outlay for Power has been increased by 22% from Rs.5,167 crore in the current year to Rs.6,269 crore. The outlay for Roads has been stepped up from Rs.464 crore to Rs.593 crore. The outlay for Chemicals and Petrochemicals has also been stepped up from Rs.763 crore to Rs.1,206 crore. The Plan outlay for the Railways has been increased from Rs.5,700 crore to Rs.6,900 crore including Rs.400 crore for the Konkan Railway Corporation Ltd.

47. Turning to non-Plan expenditure, I would like to draw the attention of the House to the tremendous burden of interest payments. The provision for 1993-94 is Rs.38,000 crore compared with Rs.32,500 crore in the current year. The high interest burden is due to the rising volume of government debt, which itself reflects the large fiscal deficits, incurred year after year. However, with the reduction in the fiscal deficit and hence in the Government's borrowings, the growth of this item is expected to decelerate sharply by 1995-96.

48. For Defence expenditure the provision has been increased from Rs.17,500 crore in the current year to Rs.19,180 crore next year. The requirements on account of fertilisers and export subsidies will be significantly lower reflecting the impact of the measures already taken to rationalise these subsidies. The expenditure on the Farm Loan Waiver scheme will be Rs.500 crore; with this, the Government's commitment for payment under the scheme will be fulfilled. I am providing Rs.3,000

crore for food subsidy as against Rs.2,800 crore in the current year. It will be the endeavour of Government to keep the burden of food subsidy at a reasonable level and to ensure at the same time that the vulnerable sections of society are fully protected. Excluding the expenditure on interest, the provision for other non-plan expenditure in 1993-94 is about Rs.3,180 crore lower than the Revised Estimates for the current year. As in previous years, no separate provision is being made for additional dearness allowance which may become payable next year. The additional expenditure on this account will have to be absorbed by all Ministries within the approved budget provision.

49. Coming to receipts, gross tax revenues at the existing level of taxation are estimated at Rs. 89,389 crore compared to Rs. 78,782 crore in the current year. States' share of taxes next year is estimated at Rs.22,590 crore as against Rs. 20,525 crore in the current year's Revised Estimates. I am taking a credit of Rs. 3,700 crore for market borrowings as against the current year's level of Rs. 3,670 crore. External assistance, net of repayments, is estimated at Rs. 6,819 crore as against Rs.5,374 crore in the current year. Net small savings collections next year are estimated to reach the current year's level of Rs. 5,500 crore despite heavy maturities falling due next year. As in the current year's Revised Estimates, I am taking credit of Rs. 3,500 crore for receipts from disinvestment of equity in public enterprises. Total receipts at the existing levels of taxation are estimated at Rs.130,990 crore and total expenditure at Rs.131,323 crore leaving a gap of Rs. 333 crore.

PART B

50. I now turn to the tax proposals for 1993-94.

51. In framing these proposals I have been acutely conscious of the conflicting requirements of comprehensive reform of the tax structure on the one hand, and the need to protect revenues to finance the large increase in the Plan, on the other. Last year significant reforms were made in personal income taxation based on the recommendations of the Chelliah Committee. Reform of corporate taxation was deferred until the detailed recommendations of the Chelliah Committee were received. These have since been received. The Committee has also recently submitted its final report on indirect taxes, recommending significant reduction in customs duties as well as rationalisation and simplification of excise duties.

52. I accept the broad thrust of the Chelliah Committee's recommendations on both direct and indirect taxes. We must move as rapidly as possible to a regime of moderate tax rates in direct taxation, which will encourage better compliance especially if supplemented by efforts at broadening of the tax base. We must also move to a regime of low to moderate customs duties which is essential for efficient and competitive industrialisation. Our excise duties should also be simplified with fewer rates and our long-term aim should be to move to a Value Added Tax System. However, a nationwide value added tax system cannot be introduced overnight. There has to be a broad agreement among the Centre and the States on the design of such a system. In order to promote informed discussion and debate, I am requesting the National Institute of Public Finance and Policy to prepare the design of a possible value added tax system.

53. Although all the major recommendations of the Chelliah Committee are important, they cannot be implemented immediately for the simple reason that tax reform, which typically involves lower tax rates collected on a broader base, often involves a loss of revenue in the short run. Fiscal experts tell us that the loss of revenue will be made up in the medium term, but there is no guarantee that this will happen immediately, and Finance Ministers have to look after the short term if they want to survive in the medium term. I hope the House will agree with me that a phased transition is needed.

54. A key issue in phasing the transition is whether to do a little on all fronts or to make decisive changes in certain areas, with a clear declaration of progress to be made in other areas in future. I have thought over this matter carefully and I feel that decisive action in critical areas is more important than marginal improvements on all fronts. The most critical area for action at present is customs duties. Despite the adjustments in customs duties in the last two budgets, our duties are still much higher than in most of our competitor countries, especially on capital goods. With these duties, and the resulting high capital costs, our producers will never be able to compete in world markets. Nor can we expect new investment, both domestic and foreign, to flow into areas with export markets in view, if high customs duties make them uncompetitive. Yet it is such investments that we need most at present if we want to reduce our dependence on external assistance. We cannot and must not continue with the approach of setting up industries aimed solely at the domestic market in the belief that replacing imports ipso facto contributes to self reliance, without considering at what cost we are effecting the replacement. In fact, replacement at unduly high cost contributes to inefficient industrialisation, an inability to export and a permanent dependence on external assistance. We must take a bold initiative in this area while taking due care to protect the legitimate concerns of our industry. Normally, the revenue loss from customs duty reduction could have been made up through higher excise duties. However, there are compelling reasons for rationalising and reducing excise duties over a wide range of industries because many of our duties are too high and parts of industry are also suffering from recessionary conditions.

55. In these circumstances, Hon'ble Members will appreciate that I have limited room for maneuver in the area of direct taxes. Major reform of the corporate tax structure, along the lines recommended by the Chelliah Committee is undoubtedly desirable. However, for the reasons indicated, it will have to be postponed to the next year.

56. I would like, however, to give a stimulus to new investment in those States in which all the districts are industrially backward. Accordingly, I propose to give a five-year tax holiday, commencing from the year of production, for new industrial undertakings located in all the North-Eastern States, Jammu & Kashmir, Himachal Pradesh, Sikkim, Goa and Union Territories of the Andaman and Nicobar Islands, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep and Pondicherry.

57. Electricity is a critical input for the future growth of our economy. I therefore propose to introduce a five-year tax holiday in respect of profits and gains of new industrial undertakings set up anywhere in India for either generation or generation and distribution of power. The five-year tax holiday will begin from the year of generation of power.

58. The five-year tax holiday, in both these cases, will be part of section 80-

IA of the Income-tax Act. At the end of the five-year period, these units will be entitled to the existing deduction under section 80-IA for the remaining period.

59. To promote a cleaner and healthier environment, I propose to allow depreciation admissible on plant and machinery relating to environment protection and pollution control at 100 per cent instead of the existing 40 per cent. of capital cost under the Income-tax Rules.

60. Hitherto, our institutions of higher learning have been almost entirely dependent on Government funds. As government funds are limited, we must find ways of funding these institutions from industry. This will also bring them closer to industry and more responsive to its needs. I, therefore, propose to raise the income tax deduction given to contributions to approved universities, institutes of technology, institutes of management and equivalent institutions from 50 per cent. at present to 100 per cent.

61. A strong science and technology base is an essential prerequisite for a modern, progressive economy. Indian scientists and technologists have proved, time and again, that they are second to none in the world, given the right work atmosphere, proper motivation and adequate facilities. Indian industry needs to spend a lot more on research and development. In doing so, I would encourage industry to make use of the facilities offered by our national laboratories and research institutes. To that end, I propose to introduce a weighted deduction of 125 per cent. of the contribution out of income from business or profession for research programmes in approved national laboratories and institutions carrying out research and development in natural and applied sciences. This weighted deduction will be available only for research programmes determined by the users and the producers of research, and approved by the prescribed authority.

62. I propose to extend the five-year tax holiday under section 10A of the Income-tax Act, at present available to units set up in the Free Trade Zones, to units set up in Software Technology Parks and Electronic Hardware Technology Parks. In July 1991, I had introduced a 100 per cent deduction for three years in respect of income derived from export of software. Software exports have done well and I propose to extend the concession for one more year i.e. for assessment year 1994-95.

63. Under the scheme for permitting Foreign Institutional Investors in our capital market, we had indicated that such investors would be liable to tax at 20 per cent. on investment income and 10 per cent on long term capital gains. I also propose to extend a concessional rate of tax of 30 per cent in respect of short-term capital gains for such investors.

64. As I have already mentioned, a substantial reform of personal taxation was carried out last year based on the recommendations of the Chelliah Committee. I propose to leave the rate structure and exemption limit unchanged and make only a few modifications.

65. Last year, because of severe resource constraints, I was compelled to retain the surcharge on personal income above Rs.1 lakh at 12 per cent. I had hoped to be able to remove the surcharge in the current year but I am constrained to continue with it for one more year. However, I propose to raise the standard deduction from salary income from Rs.12,000 to Rs.15,000 and the standard deduction for working women with incomes upto Rs.75,000 from Rs.15,000 to Rs.18,000.

66. In recognition of the hardship to old people in these days of inflation, I had given a tax rebate of 10 per cent last year to senior citizens whose gross total income is below Rs.50,000. I propose to raise the tax rebate to 20 per cent and further increase the income limit from Rs.50,000 to Rs.75,000.

67. Last year, I had announced that a scheme for giving Advance Rulings in respect of transactions involving non-residents would be worked out. The scheme has been drawn up and I am bringing forward legislative proposals for the creation of a statutory authority, headed by a retired Judge of the Supreme Court. I do hope that the scheme will be welcomed by non-residents.

68. I propose to extend the simplified scheme of presumptive taxation introduced last year to small road transport operators operating, hiring or leasing one transport vehicle.

69. Payments made under Voluntary Retirement Schemes to public sector employees were fully exempt from income tax; last year I extended this exemption to private sector employees. I propose now to extend this facility to employees of statutory authorities and local authorities.

70. Recognising the trauma of bringing up a handicapped child, I had, last year increased the deduction permissible for guardians of handicapped dependants under the income-tax law from Rs 6000 to Rs.12000. I now propose to further raise this deduction to Rs.15000. I also propose to allow a deduction in respect of income of handicapped minors clubbed with the income of their parent to the full extent of the child's income upto a maximum of Rs.20,000.

71. In my first Budget Speech in July 1991, I had proposed the setting up of the National Foundation for Communal Harmony to provide assistance to the children of families affected by communal riots. The Foundation has since been established under the aegis of the Home Ministry. I now propose to extend the benefit of 100 per cent. deduction under section 80G of the Income-tax Act in respect of donations made to the Foundation. I also propose to exempt the income of the National Foundation for Communal Harmony fully from income tax.

72. At present, charitable trusts and institutions have to seek approval every three years from the Commissioner of Income tax in order that donations to them are eligible for tax exemption. To reduce paper work and simplify the procedure, I propose to increase the maximum period of approval by the Commissioner to five assessment years.

73. I would like to see India gain prominence, not only in the global economy, but also in the world of sports. There are provisions in the Income-tax Act to allow exemption in respect of income of approved sports associations or institutions and to grant 50 per cent. deduction in respect of donations made to them. I propose to amend the Rules relating to eligible projects or schemes under section 35AC of the Act to include promotion of sports in such activities. This would provide 100 per cent. deduction in respect of spending on approved sports projects and schemes.

74. Last year, I had proposed the setting up of a National Court of Direct Taxes for expeditious settlement of litigation in direct tax matters. The proposal has been examined in detail and I hope soon to bring forward legislation in this regard. In regard to a Direct Taxes Code, the Government will take a final view, taking into account the recommendations of the Chelliah Committee on the subject.

75. The Wealth-tax Act was considerably recast last year and the basis of taxation was shifted from wealth to unproductive assets. There has been persistent demand that a residential dwelling is a universal necessity and should not be subjected to wealth-tax. Hence, I propose to exempt the value of one residential house or part thereof from the levy of wealth-tax.

76. Last year, I had exempted residential houses, motor cars, etc. held as stock-in-trade from the levy of wealth-tax. I now propose to exempt urban land held as stock-in-trade. However, to discourage speculation in the guise of stock-holding, I propose to restrict the exemption to three years beginning from the year in which the land is acquired.

77. The exemption limit for purposes of gift-tax was fixed at Rs.20,000 some years ago. I agree with the recommendations of the Tax Reforms Committee that this limit needs to be revised and, therefore, propose to raise it to Rs.30,000.

78. Gifts made by a person to any dependant relative in respect of marriage of the relative is exempt from gift-tax only up to Rs.10,000, whereas vast expenditures on ostentatious marriages go scot-free. In order to encourage savings and productive investment, I propose to raise the exemption limit at the time of the marriage of a dependant relative from Rs.10,000 to Rs. 30,000.

79. As an incentive to the export drive which has to be kept up at all costs, I propose to exempt all banking companies from the levy of Interest-tax on export credit provided by them.

80. The various changes that I have proposed would result in a loss of Rs.300 crore of which the States' share would be Rs. 194 crore. The amount involved is very small – less than 2 per cent of the gross direct tax collections. I am ignoring it in the expectation that better tax collection would cover this loss.

81. I now turn to the proposals relating to indirect taxes.

82. Since 1973, we have been levying a separate auxiliary duty in addition to the basic customs duty. In order to simplify the tariff structure and the assessment process, I propose to do away with the separate auxiliary duty and merge it with the basic duty.

83. Our first priority in restructuring customs duty should be in the area of capital goods and project imports since these duties affect the incentives for new investment. Last year the duty on projects and general machinery was brought down from 80% to 55%. This is still too high compared with rates in competitor countries and a further reduction is necessary. I, therefore, propose to lower the import duty on projects and general machinery to 35%. Projects in certain priority sectors such as, power, coal mining and petroleum refining currently attract a duty rate of 30%. I propose to reduce the rate to 25% in the case of coal mining and petroleum refining. In view of the special importance of the power sector, the duty on power projects is being reduced to 20% and this rate is also being extended to machinery required for modernisation and renovation of power plants.

84. The House can rest assured that in restructuring duties on capital goods, I have made every effort to protect the legitimate interests of domestic capital goods industry. We have had extensive discussions with various Ministries as well as representatives of concerned industries. In order to ensure that lower duties on

imported machinery do not hurt the domestic capital goods industry, it is necessary to lower the import duty on components, to enable our manufacturers to compete effectively. I therefore, propose to reduce to 25% the duty on components of general machinery which presently is either 40% or 35%. In order, however, to ensure that domestic industries producing such components are not adversely affected, I propose to impose countervailing duty on such components at 10% with full facility of set-off under MODVAT.

85. At present there are a number of other capital goods, including various types of machine tools, which attract different rates of duty in the range of 60% to 110%. There are also instruments which attract duties varying from 40% to 110%. I propose to rationalise this structure into three duty rate slots, viz., 40%, 60% and 80%. The rationalisation involves generally a duty reduction between 20 to 30 percentage points. Consequential reduction is being made in the rates of duty on specified parts and components.

86. Hand-operated tools are capital goods for artisans and skilled workers and currently attract duties varying from 40% to 110%. I propose to prescribe a uniform rate of 40% for all these tools.

87. The logic of reducing duties on capital goods requires lowering of duties on metals and metal goods as well, as these are the basic raw materials of the domestic capital goods industry. Accordingly, to help domestic producers, I propose to lower the customs duty rates on ferrous metals by 10 to 20 percentage points in most cases. In line with these changes the import duty on steel scrap is being re-fixed at 15%. The import duty on specified refractory raw materials is being reduced to 30%. Turning to non-ferrous metals, I propose to reduce the duty rates by 10 to 55 percentage points in most cases. The resulting rates on unwrought and unalloyed forms will vary from 25% to 50% and on wrought forms from 70% to 80%.

88. The duty structure for chemicals is characterised by a multiplicity of rates and many irrationalities. Input duties are often out of line with duties on finished products. I, therefore, propose to restructure the duty rates on chemicals with a view to significantly lowering duty rates at the upper end and also ensuring that the duty rates on inputs are not generally higher than the duty on end products. The present duty rates on basic feed stocks such as, ethylene, propylene, butadiene, benzene, styrene and ethylene dichloride vary between 25% and 80%. These rates are being replaced by a uniform low duty rate of 15%. The duties on xylenes, paraxylene, toluene, acrylonitrile and cumene are being reduced to 40%. The duties on DMT, PTA and MEG which represent a higher stage of production, are being reduced and unified at 70%. In the case of caprolactum, however, the duty is being increased from 50% to 60%, in order to adequately protect the interests of the domestic units.

89. The electronics industry has the potential of becoming a world class industry contributing to our export effort and to employment generation. I propose to take up this challenge. The rates of duty on project imports and on specified capital goods for electronics attract duty at either 30% or 50% at present. I propose to reduce these rates to a uniform rate of 25%. The import duties on raw materials, piece-parts and components at present are levied at 40%, 60% and 80%. These rates are being reduced to 20%, 35% and 50%, respectively. The import duty on specified raw materials for the manufacture of optical fibre cables is being drastically

reduced from 90% to 20% in recognition of the urgency of extending and modernising the telecom sector.

90. In order to strengthen our export capability in existing export-thrust areas such as textiles, leather, marine products, gems and jewelry, etc. where we have a comparative advantage, I propose to reduce the import duty on specified capital goods for these sectors from 40% to 25%. In addition, certain recommendations have been made by the Groups on Extreme Focus items for export for augmenting the export potential of certain sectors such as food processing, horticulture and floricultural industries. Accordingly, the import duty on specified items for these sectors is being reduced to 25%.

91. The ship-breaking industry is employment intensive and an important source of raw materials for the secondary sector of our steel industry. In order to encourage the growth of this industry, I propose to prescribe a lower merged duty of customs at 5% ad valorem. The ferrous materials obtained from breaking up of such ships etc. which are presently subject to excise duty are being fully exempted.

92. Our film industry is one of the largest in the world in terms of the footage of films produced. Although it has achieved this status without much need for incentives, it is now facing greater competition from the electronic media, and deserves some special encouragement. I, therefore, propose to reduce the duties on jumbo rolls of cine positive films from 55% to 25% and on finished cine film rolls from about 65% to 40%. I also propose to reduce the duty on negative cine films from about 35% to 25%.

93. In order to encourage the development of non-conventional energy sources, especially solar energy, the import duty on specified raw materials and items of this industry is being reduced by 15 to 20 percentage points. In respect of wind-operated electricity generators I propose to reduce the import duty from 40% to 25%.

94. As a gesture of goodwill towards Bangladesh, I propose to fully exempt the famous Jamdane saris from payment of import duties. Small-scale units, eligible for excise duty exemption for clearances to domestic area are at present required to pay excise duty on goods exported by them to Nepal and Bhutan. I propose to exempt these from this levy. I hope these steps will make a contribution towards improving trade with SAARC countries.

95. At present, accredited press cameramen have the facility of importing photographic equipment free of duty upto a limit of Rs.60,000 but no such facility is available to other journalists to import specialised equipment such as, laptop computers, personal computers, fax machines and typewriters. I have often wondered whether this explains why my photographs in the Press are better than the editorial comments! As a measure of my commitment to encourage modern technology in Indian journalism, and in recognition of the sterling role played by our Pressmen in creating a wider appreciation of issues of economic reform in the country, I propose to allow accredited journalists also a one time facility to import such equipment duty free upto a value of Rs.60,000.

96. The duty rate on certain specified items of baggage was recently reduced from 255% to 150%. As a measure of simplification, I propose to reduce the general baggage rate itself from 255% to 150%.

97. In line with these reductions in import duties for individual sectors, and keeping in mind the present exchange rate, there is scope for reduction in the maximum rate of duty on all goods. Accordingly I propose to reduce the maximum rate from 110% to 85% except for a few items including passenger baggage and alcoholic beverages.

98. I am aware that Honourable Members will be concerned that lowering of import duties and import liberalisation may put too much pressure on our industry and make it vulnerable to unfair competition and dumping. I would like to assure Honourable Members that these issues have been carefully considered and the proposed changes will not put undue pressure on industry. The change in the exchange rate over the past two years has created considerable room for duty reduction without hurting domestic industry. Besides, I am also reducing duties on raw materials and inputs which will help to reduce cost for our producers, enabling them to compete more effectively. Even with these changes, duties on finished products will be well above the long term structure recommended by the Chelliah Committee. We can move to that goal in phases over the next few years. As for unfair competition through dumping, our anti-dumping laws are already operational and action under these laws will be taken expeditiously whenever it is needed. I may mention that provisional action has recently been taken in one case.

99. In last year's Budget export duties had been imposed on iron ore and unpolished granite. Certain difficulties faced by these sectors have since been brought to my notice. I, therefore, propose to withdraw the export duty on iron ore and unpolished granite.

100. I turn now to my proposals relating to excise duties. These are guided by the need to simplify the rate structure, to give some relief on articles of mass consumption, help the domestic capital goods industry so as to increase its competitiveness and also reduce capital costs, assist industries suffering from depressed demand conditions, and to provide relief to small-scale industry.

101. A surcharge by way of special excise duty has been levied since 1988, and the rate is currently 15% of the basic excise duty. As a measure of simplification, I propose to merge the special excise duty with the basic excise duty rates while also rationalising the resulting duty rates.

102. I propose to give some relief from taxation on a large number of articles of mass consumption as a measure of protection to the common people, who have been hard hit by inflation. Coffee, tea and instant tea are being fully exempted from excise duty. I also propose to reduce excise duty on vanaspati from Rs.1900 to Rs.1500 per metric ton. I propose to fully exempt footwear made by units under KVIC as well as those run with cash assistance received under the Integrated Rural Development Programme, irrespective of the value limit. In respect of footwear manufactured by other units, I propose to enhance the present value limit for the purpose of exemption from Rs.75 to Rs.125 per pair. I also propose to reduce the excise duty:

- on evaporative coolers from 23% to 10%;
- on electric fans from 17.25% to 10%;
- on specified domestic electrical appliances from 23% to 15%;

- on dry cell batteries from 34.5% to 25%;
- on printing and writing ink from 17.25% to 10%;
- on radio sets from 23% to 10%;
- on tooth powder from 17.25% to 10%;
- on noodles and roasted cereals from 17.25% to 10%;
- on biscuits from 11.5% to 7.5%;
- on plastic moulded luggage from 34.5% to 25%;
- on mattresses and bedding articles of cellular rubber from 69% to 30%.

103. At present the excise duty on capital goods and instruments varies from 11.5% to 23%. In order to lower capital costs and stimulate investment, I propose to reduce the excise duty on a large number of capital goods and instruments to a uniform rate of 10%. For the power sector, I am proposing an even lower rate of 5%.

104. Revival of industrial growth is a key element in the strategy for 1993-94. Sectors such as the automotive sector, television and the refrigeration and air-conditioning industries are currently suffering from recession. Workers employed in these industries face an uncertain future. Revenue prospects will also suffer if the present trend is not reversed. I, therefore, propose to provide a significant relief to these industries by way of reduced incidence of excise duties. I expect them to respond positively to this stimulus.

105. In order to encourage the public transport sector, I propose to reduce excise duty from 23% to 15% on non-petrol driven commercial vehicles for carrying goods and passengers. Correspondingly, the excise duty on the chassis of such vehicles will also stand reduced to 15%. I also propose to fully exempt excise duty on body building on chassis of buses and similar passenger vehicles. The excise duty on three-wheelers is being reduced from 23% to 15%. I also propose to reduce the excise duty on motor cars from 55% to 40%.

106. I propose to reduce the specific excise duty on colour television sets from rates at present varying from Rs.1925 to Rs.4785 per set to rates varying from Rs.1250 to Rs.2200 per set.

107. The rates of excise duty on refrigerators presently vary from Rs.575 to Rs.5750 per refrigerator depending on their capacity. I propose to reduce the rates to Rs.400 to Rs.3500 per refrigerator. Other refrigerating appliances, including those used for cold storage in the agriculture sector currently attract an ad valorem duty of 69%. This is far too high as it affects the growth of food processing and preservation industries. I, therefore, propose to reduce the duty to 20%. I propose to reduce excise duty on air-conditioners from rates varying from Rs.13800 to Rs.85100 per unit at present to rates varying from Rs.7000 to Rs.70000 per unit depending on its capacity. In respect of compressors for air-conditioner of capacity not exceeding 7.5 tonnes, I propose to reduce the excise duty from Rs.6900 to Rs.5500 per compressor.

108. I propose to reduce the excise duty on bulk plastic resins such as low and

high-density polyethylene, polyvinyl chloride, polystyrene, etc. from 46% to 35%. This measure will benefit small-scale units manufacturing plastic products.

109. Metals are the basic raw materials of industry and the Tax Reforms Committee has suggested reduction of excise duty in this category. I, therefore, propose to rationalise the existing duty structure on metals. On ferrous metals, the ad valorem rates generally vary between 11.5% and 23%. I propose to rationalise the structure into two slabs, 12.5% and 15%. Aluminium has duty rates ranging from 23% to 40.25%. I propose to replace these rates by a uniform rate of 25%. Other non ferrous metals like copper, zinc, lead etc. attract duty rates varying from 11.5% to 34.5%. I am proposing a uniform duty of 15% for these. Certain ferrous materials are still subjected to specific rates of duty. I have proposed some upward adjustment in these rates taking into account the price increase since last year.

110. As a measure of environment protection, and in order to save wood, I propose to reduce the excise duty on plywood from 34.5% to 20%. I also propose to include pulp made from rice and wheat straws in the scheme of full excise duty exemption for production of writing and printing paper and uncoated craft paper containing not less than 75% of pulp made from bagasse, jute, etc. This will widen the scope for using non-conventional raw materials in the manufacture of paper.

111. Currently, excise duty is being levied on mechanised, semi-mechanised, non-mechanised and cottage sectors of the match industry at Rs.3.15, Rs.2.10, Rs.1.75 and Re.0.75 per hundred boxes respectively. The Government of Tamil Nadu has brought to my notice certain difficulties faced by this industry and also certain anomalies in the structure. Accepting this suggestion, I propose to reduce the rates to Rs.2.40, Rs.1.25, Re.1.00 and Re.0.50 respectively and also to restrict the existing concessions in the cottage sector only to units which are registered co-operative societies or recognised by KVIC or the State KVIB.

112. The excise duty on cosmetics and everyday toilet preparations such as, talcum powder, shampoos, face creams, shaving creams, etc. is very high at 120.75%. These items are now being increasingly used by a wide section of the people for personal care. I have received several representations from the trade, consumers and women's organisations for reduction of excise duty. I have also received complaints regarding the growth of spurious products and other abuses related to the evasion of this very high duty. I, therefore, propose to reduce the excise duty on cosmetics and toilet preparations from 120.75% to 70%.

113. I propose a marginal upward revision in the specific rates of excise duties levied on tyres, tubes and flaps.

114. I also propose to revise upwards the specific rates of excise duty on molasses from Rs.172.50 to Rs.200 per tonne.

115. The small-scale sector has been a source of strength to Indian industry and a nursery for new entrepreneurship. The central excise duty exemption scheme for this sector has contributed significantly to its development along with other measures taken by the Central and State Governments. I propose to simplify the scheme and restructure it to give additional incentives to the smaller units and at the same time respond to certain recommendations of the Estimates Committee and the Public Accounts Committee.

116.I propose to enhance the limit for exemption from registration from Rs.7.5 lakh at present to Rs.10 lakh. This will free a large number of the smaller units from the necessity of registration, and at the same time enable the tax authorities to devote greater attention to the comparatively larger units. At present, excise duty is completely exempted from the first Rs.20 lakh of turnover for units producing goods under one chapter of the excise tariff, and the limit is Rs.30 lakh if the goods produced are under more than one chapter of the tariff. I propose to enhance the duty exemption limit to Rs.30 lakh for all units. This should benefit a large number of units in the lower segment of the small-scale sector.

117.As part of the restructuring, I feel that the larger units in this sector can contribute a little more to the exchequer. At present, the excise duty payable above the zero duty limit and upto Rs.75 lakh is normal duty minus 10 percentage points, subject to a minimum of 5% ad valorem. I propose to retain this for clearances upto Rs.50 lakh in a financial year. For clearances beyond Rs.50 lakh and upto Rs.75 lakh, the concessional rate will be normal duty minus 5 percentage points, subject to a minimum of 5% ad valorem.

118.At present, buyers of goods from small-scale manufacturers, get a notional credit under MODVAT which is 5 percentage points more than the central excise duty actually paid by the latter. The Public Accounts Committee has found certain irregularities in the operation of this facility. The Tax Reforms Committee has also not favoured continuance of this special dispensation, which essentially helps the large-scale user industry. I, therefore, propose to withdraw the higher notional credit which the buyers of goods produced by the small-scale units are getting at present. They will receive MODVAT credit only on the basis of duty actually paid.

119.In respect of cosmetics and refrigerators and air-conditioning appliances, I propose to liberalise the excise duty concessions for the small-scale sector having regard to price escalation over the years. I propose to extend full exemption in respect of clearances from Rs.5 lakh at present to Rs.15 lakh. Thereafter, clearances upto Rs.30 lakh in a financial year would attract 50% of the normal duty. Clearances above Rs.30 lakh in a financial year will attract normal duty. The liberalised scheme of exemption will be available only to those units whose value of clearances does not exceed Rs.50 lakh in a financial year.

120.All the proposed changes in the small-scale sector will take effect from 1st April, 1993.

121.I now turn to certain proposals relating to agriculture, textiles and health sectors, covering both customs and excise duties.

122.Agriculture is the key to our economic growth, and deserves special fiscal incentives aimed at modernisation and diversification of this sector. I propose to reduce the import duty on various items of machinery used for agriculture, horticulture, forestry, poultry keeping, etc. from 55% to 25%. I propose to reduce the import duty on rice transplanters from 40% to 15%. I also propose to reduce the import duty on grand parent poultry stocks from 105% to 40%. The import duty on certain amino acids is proposed to be reduced from 65% to 15%.

123.In respect of out-board motors used for fishing, I propose to reduce the import duty from 40% to 15%.

124.I propose to reduce the import duty on specified pesticides from 110% to

75%. The import duty on certain pesticide intermediates is being reduced from rates ranging between 65% and 110% to 50%.

125.I propose to reduce the import duty on specified goods for horticulture and green houses to 25%.

126.At present, tractors of engine capacity above 1800cc and trailers attract a total excise duty of 17.25% and 23% respectively. I propose to reduce the excise duty on them to 10% and 15% respectively.

127.I have a package of excise duty concessions for the textile industry. Next to agriculture, it is the largest employer in the country. The present excise duty rates on polyester and nylon filament yarn are higher as compared to other types of yarn. Substantial capacities have been set up in the synthetic sector of fibre and yarn. As part of a long-term policy of bringing synthetic fabrics within the reach of the common man, I feel there is a need to reduce the excise duty rates in this sector. Hence, I propose to reduce the excise duty on polyester filament yarn from Rs.80.60 to Rs.69 per kg. and on nylon filament yarn from Rs.71.50 to Rs.57.50 per kg. I also propose to reduce excise duty on polyester staple fibre from Rs.13.65 to Rs.12.65 per kg. and on viscose staple fibre from Rs.15.60 to Rs.14.95 per kg. On polypropylene filament yarn, I propose to reduce the excise duty from Rs.32.50 to Rs.28.75 per kg. I further propose to reduce excise duty on acrylic staple fibre from Rs.15.60 to Rs.14.95 per kg.

128.Health-care deserves special treatment. I propose to reduce import duty on specified bulk drugs at 110% or 80% to 25%. I also propose to fix a uniform rate of 50% on specified drug intermediates which currently attract import duties varying from 60% to 110%. In respect of homoeopathic medicines, I propose to reduce import duty from 40% to 25%.

129.Indigenous manufacture of medical equipment deserves all encouragement. At present, full exemption from import duty is available to certain parts of specified life saving electronic medical equipments. To help in accelerating the indigenisation process, I propose to extend full exemption to such parts for the manufacture of specified non-electronic life-saving medical equipments also. In respect of components for the manufacture of certain other medical equipments, I propose to reduce import duty from 45% and 25% at present to 15%. Further, for the same reason, I propose to fully exempt specified sight-saving equipments from excise duty and to lower excise duty on some medical equipments to 10%.

130.I propose to reduce the import duty on aseptic form-fill-seal machines for packing intravenous fluids by the pharmaceutical industry from 40% to 15%.

131.I have also proposed certain amendments in the Finance Bill seeking to effect changes in the excise and customs tariffs which are generally in the nature of enabling provisions and have no revenue significance. Besides, there are proposals for amendment of some of the existing notifications. In order to save the time of the House, I do not propose to recount them.

132.The proposal in regard to changes in the excise duties outlined above are likely to result in a revenue loss of Rs.2249 crore as conventionally calculated. However, I expect that as a result of the many steps that the Government is taking, including the duty reductions, the production of excisable goods will go up, and the

loss will therefore be partially offset by a gain of about Rs.1000 crore on this account. Out of the net loss of revenue in excise duties the Centre's share will be Rs.708 crore and that of States Rs.541 crore.

133.The proposed restructuring of customs duties results in a net loss of Rs.3273 crore. This revenue loss will be entirely borne by the Centre.

134.The net impact of my proposals on customs and excise duties taken together amount to a revenue loss of Rs.4522 crore on indirect taxes. The impact on the Centre's revenue is a loss of Rs.3981 crore and that on States' is Rs.541 crore. I believe this is a temporary loss and is necessary to impart a new dynamism to India's economy. In the medium term, this loss will be more than made up by increased efficiency, competitiveness and faster growth of the economy.

135.Copies of notifications giving effect to the changes in customs and excise duties effective from the 28th February, 1993 will be laid on the Table of the House in due course.

136.Taking into account the revenue loss arising from my proposals relating to indirect taxes the budget deficit for 1993-94 is estimated at Rs.4314 crore and the fiscal deficit at Rs.36,959 crore.

137.Mr. Speaker, Sir, the world around us is changing very rapidly, becoming more integrated as a marketplace and also more competitive. Other developing countries are successfully transforming themselves to meet these challenges. We cannot afford to stay out of this process, appearing to be absorbed with obscurantist preoccupations and sectarian divisions. The solution lies precisely in harnessing the considerable energies of our people, especially the young, to the exciting task of economic rejuvenation. I have used this Budget as an opportunity to put economic and social development firmly back on the national agenda. This is the only way to show the world that India is a nation on the move and is determined to succeed.

138.It is India's destiny to be a major player on the global economic and political scene. For that we need a vibrant and rapidly expanding economy with deep and abiding concern for the poor and the under-privileged. Politics has to be a purposeful instrument for realising our cherished goals. There is no scope for confrontation or cold war tactics when it comes to dealing with the nation's social and economic objectives. We need wisdom, sobriety, firmness of purpose and above all national unity.

139.As Swami Vivekananda used to say there is an element of divinity in each human being. We have to create an environment in which this divine potentiality can be mobilised for building a strong economy and a just society. This is the challenge that our political system must face squarely. I venture to think that this budget focusses the nation's attention on this imperative task.

140.Sir, I commend the Budget to this august House.

[27th February, 1993]