

Budget 1995-96

Speech of

Shri Manmohan Singh

Minister of Finance

15th March, 1995

PART A

Sir,

I rise to present the Budget for 1995-96.

2. Four years have passed since our Government, under the leadership of Prime Minister Shri P.V. Narasimha Rao, took office in the midst of an unprecedented economic crisis. Our immediate task was to save the nation from a relentless slide into the abyss of falling production, soaring inflation and deepening poverty. We dealt swiftly with the immediate crisis and we also worked towards a broader objective of shifting the economy on to a path of rapid, employment-generating growth. Our aim was to raise India to her rightful place in the comity of nations.

3. Sometimes, in the heat of political debate, we lose sight of what has already been achieved. Let me take a few minutes to outline how far we have come since those grim days of 1991:

- The growth of our economy had fallen to less than one per cent in 1991-92. We brought the economy back to a growth of 4.3 per cent per year in the two years thereafter, and growth has accelerated further to 5.3 per cent in 1994-95. Few countries can claim as quick and smooth a recovery from as deep an economic crisis.
- Industrial growth had collapsed to about half of one per cent in 1991-92. Today, Indian industry is experiencing a vibrant, broad-based recovery with industrial growth of 8.7 per cent in April-November, 1994. The manufacturing sector is growing even faster at 9.2 per cent and the capital goods sector is growing at 24.7 per cent. I hope that those critics who predicted that our industrial and trade reforms would hurt Indian industry will look at the reality and think again.
- There are signs of a strong revival in domestic industrial investment in 1994-95 as Indian industry modernises and upgrades technology, and improves competitiveness. Foreign direct investment is also responding

well to the new policies, with large investments flowing into key infrastructure sectors such as Power and Telecommunications.

- Foodgrain production had fallen to 168 million tonnes in 1991-92. This year, it will be an all-time record of 185 million tonnes. Our farmers have clearly benefited from the policy of offering remunerative prices and have returned a strong production performance.
- Public stocks of foodgrain, which provide an invaluable insurance against bad weather and other contingencies, had declined to 14.7 million tonnes three years ago. They have been rebuilt to a record level of 31 million tonnes, as on January 1, 1995.
- Growth has created new jobs for our people. In 1991-92, total employment grew by only about 3 million. In each of the two years thereafter, employment increased twice as fast, with about 6 million new jobs added each year. The increase is expected to be even higher in 1994-95. The drawing room Cassandras, who predicted massive unemployment as a consequence of the reforms, have been conclusively proved wrong.
- The inability to manage our external payments was the immediate cause of our collapse in 1991. I am sure, Honourable Members are aware of the remarkable change that has taken place in this area. The dollar value of exports fell by 1.5 per cent in 1991-92. In 1994-95 our exports have grown by over 17 per cent in the first 10 months. This follows a 20 per cent increase in 1993-94. Imports have also grown in line with the revival of the economy but the balance of payments situation is comfortable.
- The fears that were voiced in some quarters that our trade policy would generate a disruptive flood of imports and weaken the economy have been shown to be completely unfounded. Liberalisation and openness have actually increased our self-reliance. Exports now finance over 90 per cent of imports, compared to only about 60 per cent in the latter half of the eighties. The external deficit on current account was over 3 per cent of GDP in 1990-91. It is expected to be less than 1/2 per cent in 1994-95.
- At the time of the crisis, our external debt was rising at the rate of 8 billion dollars a year. In 1993-94, the increase in external debt was reduced to less than one billion dollars. In the first half of 1994-95, our external debt stock actually declined by almost 300 million dollars.
- Our foreign currency reserves had fallen to barely one billion dollars in June 1991. On March 10, 1995 they stood at over 20 billion dollars.
- A key element of our strategy was to give top priority to strengthening anti-poverty programmes, once the initial crisis was overcome. We have fulfilled this promise. Plan expenditure on employment and anti-poverty programmes in the Central Sector has been increased very sharply in the last two budgets. The allocation for Rural Development has been more than doubled from Rs.3100 crore in 1992-93 (BE) to over Rs.7000 crore in 1994-95 (BE). Over the same period the allocation for Elementary Education was increased by 84 per cent, for Adult Education by 78 per cent and for Health by 91 per cent.

4. These indicators testify to a remarkable turnaround, in a relatively short time. We inherited an economy near collapse four years ago. We have transformed

it into an economy showing strong growth in agricultural and industrial output, a strong revival of domestic investment, a steady increase in foreign direct investment, renewed growth of employment and a comfortable foreign exchange position. This is the result of the hard work of our farmers and industrial workers, our managers and exporters, combined with the far sighted economic policies implemented by the government under the leadership of Prime Minister Shri P.V.Narasimha Rao. What is most encouraging is the emergence of a broad national consensus in support of reforms, a consensus which vindicates our strategy of moving forward steadily and surely on the path of reform.

5. We have come a long way, but the journey is far from over. We need to redouble our efforts in several areas to consolidate our gains, and push the economy to even better performance. This is both feasible and also necessary to achieve our goals. Reforms in the areas of taxation, trade and industrial policies and the financial sector have yielded good results. They need to be completed as planned, so as to enhance the efficiency and competitiveness of our economy. Barriers to further expansion of agriculture have to be identified and lifted. The public sector has to be revamped. Industrial relations have to provide for greater flexibility in deployment of labour. Delivery systems for social services have to be modernised, plugging loopholes and promoting cost effectiveness. Capital market reforms have to be widened and deepened to strengthen investor protection. Insurance sector reforms have to be pursued with the aim of greatly widening access to insurance services and promoting competitive and efficient customer-oriented services. We must and will push ahead in all these areas.

6. There are also some weak spots, which have surfaced and need to be addressed urgently. After the initial successes in fiscal consolidation, further progress has proved much more difficult. The fiscal deficit increased sharply in 1993-94 and the pressure on the deficit has continued in 1994-95. These developments must be countered through determined action. If we try to fund every project and programme irrespective of the revenues available, we only generate high inflation, high interest rates which choke off investment, and a proliferation of under-funded, incomplete projects. This approach will only jeopardise our basic objective of development with social justice since it is the poor who will suffer most from the resultant inflation and slow growth of employment opportunities. We must, therefore, ensure that fiscal discipline is further improved in the years ahead.

7. Inflation has surfaced again as a serious problem. We had succeeded in lowering the rate of inflation from the peak of 17 per cent in 1991 to around 7 per cent in the middle of 1993, but since then inflation has accelerated again and currently exceeds 11 per cent. This acceleration has occurred because of several factors. One reason is the sharp increase in procurement prices in the previous three years. Another factor is the shortfall in production in critical sectors such as sugar, cotton and oilseeds. The persistence of fiscal deficits at levels higher than they should be, has also contributed to inflationary pressure. Recognizing these problems, we will tackle inflation on a priority basis in the year ahead.

8. Monetary policy has already been tightened to reduce the growth of money supply. Interest rates on bank deposits have been raised to give greater encouragement to savings. Taking advantage of the improved foreign exchange

position, imports of key essential commodities, such as sugar, cotton, pulses and edible oils have been freely allowed with zero or low duties to moderate inflationary pressure. We are also taking advantage of the comfortable foodgrain stocks to undertake continuous open market sales of wheat and rice with a view to moderating price pressure in these items. The Public Distribution System (PDS) has been strengthened and supplies through the PDS are being supplemented by necessary imports of sugar and edible oils. Over the coming year, we will use all instruments available to ensure stability in prices of wheat, rice and edible oils. Tariff and trade policies will be deployed to ensure that domestic prices of industrial products do not rise unduly. The consumer movement will be strengthened and Government will be vigilant in curbing restrictive practices and hoarding. My revenue proposals, to which I will come a little later, are also designed to check inflation in commodities of mass consumption.

9. Infrastructure is another area of potential weakness. If we are to aim at economic growth of 7 to 8 per cent, which has been achieved in other countries and which alone can provide the jobs we need for our growing labour force, then we need much larger investment and much greater efficiency in key infrastructure sectors such as power, roads, ports, irrigation, railways and telecommunications. Sound financial management holds the key to progress in this area. Adequate supply of quality infrastructure depends crucially on the financial viability of these sectors, which in turn depends upon the adoption of reasonable cost recovery policies. To take the example of power, many State Governments are unable to finance new investment in power generation because of the financial weakness of the State Electricity Boards. Taking advantage of the Central Government's initiative to encourage private investment in power generation, many State Governments are actively trying to attract private sector investments into this area. But private sector investors are unwilling to invest in Power unless the State Governments and the Central Government provide guarantees and counter-guarantees to reassure the private sector producers that they will be paid for the power they generate. Such counter-guarantees are justifiable only if they are viewed as providing temporary breathing space, during which State Electricity Boards undertake necessary reforms of their institutional structure, operating practices and pricing policies. In the long run, we cannot escape the reality that the users of electricity must pay for its cost. The same criterion holds for other infrastructure sectors also. Once financial viability is assured, we can expect a renewed surge of both public sector and private sector investments in these areas.

10. I shall now deal with some issues of social equity and poverty alleviation. In my first Budget speech itself, I had emphasised that economic growth and restructuring are not ends in themselves. They are only the means to improving the lives of ordinary citizens. I wish to assure the House that this concern has been central to our strategy from the very beginning. Experience in our own country, as also from all over the world, shows that the surest antidote to poverty is rapid and broad based growth. This is precisely what our economic reforms seek to achieve. We also recognise that the fruits of growth will take time to reach some of the poorest and weakest sections of our society. To ensure that they too derive benefit in the short run, we have given the highest priority to strengthening programmes of rural development, employment generation, primary education, primary health and other key social sector programmes. These programmes, coupled with

accelerating economic growth over the last three years, are beginning to have desirable effects on employment and poverty. I have already mentioned that total employment is expanding much faster than three years ago. Real wages of agricultural labourers had declined in 1991-92 during the crisis. They had increased above pre-crisis levels by 1993-94. Available information on vital statistics, like the crude death rate and the infant mortality rate, also indicates a clear recovery in general living standards after 1991-92.

11. The message is clear: the task of lifting the age-old burden of poverty in our society is daunting, but we are on the right track. We must persevere with our two-track strategy of accelerating growth, investment and modernisation on the one track, and strengthening anti-poverty programmes on the other. The Central Plan allocations and the tax proposals in this Budget are designed to advance both elements of this strategy. Before coming to these proposals, I would like to outline some new initiatives aimed at strengthening the income-earning opportunities for the weaker segments of our society.

12. Inadequacy of public investment in agriculture is today a matter of general concern. This is an area which is the responsibility of the States, but many States have neglected investment in infrastructure for agriculture. There are many rural infrastructure projects, which have been started but are lying incomplete for want of resources. They represent a major loss of potential income and employment to the rural population. To encourage quicker completion of projects in rural infrastructure, I propose to establish a new Rural Infrastructural Development Fund within the National Bank for Agriculture and Rural Development (NABARD) from April 1995. The Fund will provide loans to State Governments and State owned Corporations for completing ongoing projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. The loans will be on a project-specific basis with repayment and interest guaranteed by the concerned State Government. Priority will be assigned to projects which can be completed within the least time period. Resources for the Fund will come from commercial banks which will be required by Reserve Bank of India (RBI) to contribute an amount equivalent to a bank's shortfall in achieving the priority sector target for agricultural lending, subject to a maximum of 1.5 per cent of the bank's net credit. This is expected to create a corpus of about Rs.2,000 crore for completion of rural infrastructure projects.

13. Our Scheduled Castes and Scheduled Tribes citizens are amongst the poorest members of our rural society. In the one hundred predominantly tribal districts, NABARD will open an exclusive line of credit to Cooperatives and Regional Rural Banks for meeting the credit needs of Scheduled Tribes. Rs.400 crore will be earmarked for this purpose during 1995-96. NABARD will also earmark a further Rs.100 crore for financing Scheduled Castes and Scheduled Tribes beneficiaries identified by the Scheduled Castes and Scheduled Tribes Corporations. This amount would be available to the commercial and cooperative banks for meeting the investment needs of Scheduled Caste and Scheduled Tribe beneficiaries in both farm and non-farm activities.

14. Khadi and village industries provide crucial non-farm earning opportunities to our rural population. I propose to establish a new scheme under

which the banking system will provide Rs.1,000 crore on a consortium basis to the Khadi and Village Industries Commission (KVIC), which will lend to viable khadi and village industry units, either directly or through State level Khadi and Village Industries Boards (KVIBs). The Central and State Governments will guarantee these loans by commercial banks to KVIC and KVIBs, respectively.

15. The handloom sector employs millions of poor weavers. At present, NABARD refinancing to this sector is restricted to the flow of credit through the District and State Cooperative Banks. Henceforth, NABARD will extend refinancing to commercial banks also for extending credit to cooperative handloom institutions. Steps are also being taken to accelerate the flow of credit to the Handloom Centres and Quality Dyeing Units coming under the scheme initiated last year.

16. Our Small Scale Industries employ 14 million workers and account for 40 per cent of our total manufacturing output and 35 per cent of our exports. This dynamic sector must be strengthened and assisted to better serve the goals of growth, employment generation and self-reliance through exports. A Technology Development and Modernization Fund will be established in the Small Industries Development Bank of India (SIDBI) to provide financial assistance to quality projects aimed at strengthening the export capability of small-scale industries. The initial amount earmarked for this Fund will be Rs.200 crore. The financial assistance, which would be directly provided by SIDBI to eligible small-scale units, can take the form of either loans or equity.

17. A National Equity Fund Scheme was established in 1987, to provide equity assistance to tiny small scale units with projects of less than Rs.10 lakhs and located in places with a population not exceeding 5 lakhs (15 lakhs in the case of Hill Areas and the North Eastern Region). I propose to extend the National Equity Fund Scheme to all tiny small-scale units irrespective of their location, except for units in metropolitan areas. Furthermore, the scope of this scheme will be enlarged to cover expansion, modernization, technology upgradation and diversification. The scheme, which is managed by SIDBI, will continue to be funded by the Central Government and SIDBI on 50:50 basis.

18. Adequate availability of credit from the banking system is critical for the small scale sector. The Government, in consultation with banks, has formulated a Seven Point Action Plan for improving the flow of credit to this sector. A key feature of the Plan is the setting up of specialized bank branches to serve the needs of small scale units in 85 identified districts, each with more than 2,000 registered small scale units. The public sector banks will ensure that 100 such dedicated branches are operational before the end of 1995-96.

19. The North Eastern region of our country merits special attention. With a view to accelerating industrial development, a new North Eastern Development Bank (NEDB) is being established to finance creation, expansion and modernization of industrial enterprises and infrastructure projects in the region. The Bank will be located within the region. It will have an authorized capital of Rs.500 crore. Initial contributions to capital will be provided by All India Financial Institutions such as IDBI, ICICI and UTI, providing scope for contribution from other investors subsequently.

20. In addition to these measures for enhancing income earning opportunities for the weaker sections of our society, I am pleased to announce four far-reaching programmes for the general welfare of the poor, especially in rural areas. The first programme addresses the serious deficiency in housing facilities for the rural poor. As Honourable Members are aware, there is a major ongoing rural housing programme, the Indira Awas Yojana. About 4 lakh dwelling units are expected to be provided on a subsidized basis in 1994-95 to Scheduled Castes, Scheduled Tribes and freed bonded labourers. For 1995-96, the housing target is being more than doubled to 10 lakh units. With this initiative, we will be able to build 50 lakh rural dwelling units in the next five years. This will go a long way towards solving the critical shortage for basic shelter among rural poor.

21. The greatest hardships among the poor are often suffered by the old and the weak, most of whom are unemployable. To soften the hardship in their twilight years, a National Social Assistance Scheme has been proposed to cover the poor and needy. One component of the scheme is the provision of a national minimum old age pension of Rs.75 per month to people above 65 years of age who are below the poverty line. A second component provides lump-sum survivor benefits to poor households, on the death of the primary bread earner, of Rs.5000. The third component aims at provision of sustenance for pre-natal and post-natal maternity care to women belonging to poor households for the first two births. The scheme will eventually cover about 14 million neediest beneficiaries from households below the poverty line. Three quarters of the beneficiaries are likely to be women needing assistance on account of old age, widowhood and maternity. The Scheme, to be funded jointly by the Centre and the States, will be implemented by the States through Panchayati Raj institutions. For this purpose, I am appointing a Committee to work out the details of this Scheme.

22. The social assistance package will be complemented by a new Group Life Insurance Scheme of the LIC which will be implemented by Panchayats in rural areas. Under this scheme, life cover of Rs.5000 will be provided for a modest annual premium of around Rs.70. For poor households, the Central Government will subsidise 25 per cent of the premium with the State Government meeting an equal amount and the beneficiary contributing 50 per cent. The subsidy will be limited to one policy per poor household. For the others, there will be no subsidy on the premium. The object of the scheme is a massive promotion of social insurance and thrift in rural areas with the active involvement of Panchayats. For poor households, it will provide a second tier of partly subsidised security supplementing the survivor benefit and will also inculcate the habit of saving. The LIC will be working out the details of the scheme.

23. Schemes to provide mid-day meals for school children have a beneficial impact not only on child nutrition but also on school attendance. Some of the State Governments have been operating school mid-day meals schemes. As part of the emphasis being laid by this Government on the primary education, and taking into account the comfortable food stocks with the public sector agencies, it is appropriate that the Central Government should be willing to participate in phased expansion of these schemes. The modality of implementing this, with necessary local variations, will be worked out by a Committee to make it operational in 1995-96.

24. Taken as a whole, these new initiatives for funding agricultural infrastructure, promoting handlooms and khadi and village industries, expanding rural housing and introducing social insurance will greatly strengthen the anti-

poverty component of our strategy. In parallel, we will also continue with the economic reforms, which have already yielded excellent results.

25. The industrial, trade and tax reforms, which have created demonstrable buoyancy in industrial production, investment and exports, will be continued, with a special effort to improve implementation at the ground level. An important positive development is the upsurge of investment proposals in infrastructure sectors, such as power and telecommunications. We will ensure that the flow of investment into these critical sectors is expedited. Reforms in the capital markets are being pursued vigorously. Major amendments have been made recently in the Securities and Exchange Board of India (SEBI) Act to give SEBI powers for effective regulation of the capital markets. We propose to introduce legislation to set up Central Depositories later this year. We will continue our efforts at financial sector reforms.

26. In my speech last year, I had drawn attention to the report of the Committee on Reforms in the Insurance Sector and indicated that we would evolve a broad consensus on the future direction of reform. As a first step, I propose to establish an independent Regulatory Authority for the Insurance industry. Necessary legislation will be introduced shortly.

27. I shall now briefly go over the Revised Estimates for 1994-95.

28. The Budget Estimates for 1994-95 had placed the total expenditure at Rs.1,51,699 crore. This is now expected to go up to Rs.1,62,272 crore, an increase of Rs.10,573 crore.

29. Budget Estimates for the current year provided Rs.46,582 crore as budget support for Plan expenditure. This is being enhanced to Rs.48,761 crore to accommodate additional assistance to the State Plans and additional allocations for the MPs Local Area Scheme.

30. Non-Plan expenditure in the current year is placed at Rs.1,13,511 crore which represents an increase of Rs.8,394 crore over the Budget Estimates. Additional provision has had to be made in the Revised Estimates towards food and fertilizer subsidies. The provision for food subsidy has to be substantially increased by Rs.1,100 crore because of the time lag in the revision of issue prices of foodgrains. Fertilizer subsidy is being increased by Rs.1,166 crore from the budgeted level to cover the requirement of imports and to clear past arrears. There has been an unprecedented rise in collections from small savings schemes this year. Consequently, an additional amount of Rs.4,497 crore is being provided in the Revised Estimates as loans to States and Union Territories.

31. Gross tax revenues were estimated at Rs.87,136 crore in the Budget Estimates. I am happy to report that our tax reforms are beginning to have the expected impact and gross tax revenues are Rs.2,695 crore higher than the Budget Estimates, reaching a figure of Rs.89,831 crore in the Revised Estimates for 1994-95. This is a vindication of our strategy of tax reform, and also a tribute to the hard work and dedication of the revenue department, without whose unstinting efforts this result could not have been achieved.

32. External loans, net of repayment, are placed at Rs.3,947 crore compared to the Budget Estimates of Rs.4,279 crore.

33. Though tax collections and other non-debt receipts have been higher than budgeted, the gains have been outweighed by much larger increases in plan and non-plan expenditure. The fiscal deficit was originally budgeted at Rs.54,915 crore or 6 per cent of GDP. The fiscal deficit in the Revised Estimates comes to Rs.61,035 crore which is about 6.7 per cent of GDP. However, nearly three quarters of this deterioration is due to the extraordinary rise in small saving collections, 75 per cent of which are passed on to the States. Thus the bulk of the deterioration in the fiscal deficit is not on account of increased expenditure of the Central Government, but only a reflection of larger small savings as compared to the Budget Estimates, which are on lent to the States. If this element is excluded, the Centre's fiscal deficit would be only 6.2 per cent of GDP compared to the Budget target of 6 per cent.

34. The Tenth Finance Commission (TFC) submitted its Report covering the five year period of 1995-2000, on November 26, 1994. The Report recommends a substantial increase in transfers to the States. Despite the severe constraint on the Centre's resources, the Government has accepted the recommendations of the Commission and these are being implemented with effect from 1995-96. The flow of funds based on Finance Commission devolution and transfers will increase by about 22 per cent, from Rs.28,832 crore in 1994-95 to Rs.35,055 crore in 1995-96. We expect the States to use the additional resources for the purposes for which they are released and ensure that the fruits of the schemes reach the intended beneficiaries.

35. I now turn to the Budget Estimates for 1995-96. The total expenditure is estimated at Rs.1,72,151 crore. The total budgetary support from the Central Government's budget to the Central and the State Plans is being placed at Rs.48,500 crore in 1995-96, which represents an increase of Rs.1,918 crore over the level in Budget Estimates 1994-95.

36. The total outlay of the Central Plan 1995-96 has been increased to Rs.78,849 crore from Rs.70,141 crore in the Budget Estimates 1994-95. The budgetary support for the Central Plan 1995-96 has been increased to Rs.28,994 crore from Rs.27,278 crore in the Budget Estimates 1994-95. The balance will be met by the internal and extra budgetary resources of the Central Public Sector Enterprises to the extent of 63 per cent, as against 61 per cent in Budget Estimates 1994-95.

37. I am providing Rs.19,506 crore as Central Plan assistance to States and Union Territories in the Budget Estimates 1995-96 compared to Rs.19,304 crore in Budget Estimates 1994-95. It is relevant to note that the plan transfer to States and UTs for 1994-95 include Rs.2,680 crore as part of the Ninth Finance Commission decisions. Tenth Finance Commission has not suggested any transfer on Plan Account. Thus the discretionary plan transfer by the Centre to States and UT goes up from Rs.16,624 crore in 1994-95 to Rs.19,506 crore in 1995-96, yielding an increase of over 17%. This amount has to be viewed in the background of substantial increase in transfers to the States as a result of the recommendations of the Tenth Finance Commission.

38. In line with our strategy of giving priority to programmes which directly benefit the poor, budgetary support to the Central Plan is being concentrated on Rural Development, Employment and Poverty-alleviation programmes and human resource development sectors. As Honourable Members are aware, the directly targeted Rural Development programmes for eradicating rural poverty have received

special emphasis and enhanced outlays during the reform process. In the last budget, the outlay for the Department of Rural Development was raised to Rs.7,010 crore, more than double the amount of Rs.3,100 crore budgeted two years earlier in 1992-93. For 1995-96, this allocation is being further increased to Rs. 7,700 crore. With this, we will be well on the way to meeting the Eighth Five Year Plan target of Rs.30,000 crore of Central Plan outlay for Rural Development. It is estimated that the Rural Employment programmes under the Department of Rural Development generated about 800 million mandays of employment in 1991-92. In 1995-96, these programmes are estimated to generate 1290 million mandays of employment.

39. The Annual Plan of 1995-96 will continue to lay stress on improving productivity in the agricultural sector and diversifying the pattern of agriculture into higher value generating farm schemes like horticulture. Revitalising the cooperatives for providing credit inputs and extension support, marketing and processing would be another thrust area. The flow of agricultural credit through cooperatives is projected at Rs.14,000 crore in 1995-96, as compared to an estimate of about Rs.12,000 crore in 1994-95. Assistance will be given to 220 cooperative societies for women and 330 cooperative societies for weaker sections. It is expected that over 38,000 hectares would be brought under drip irrigation. Integrated pest management, which is eco-friendly, will be extended and 1500 training-cum-demonstrations will be organised to train over 50,000 farmers. 40,000 hectares are expected to be covered under intensive fish farming.

40. The spread of educational opportunities is essential for social and economic development. Despite severe budgetary constraints, the Plan Outlay for Education in 1995-96 is being increased from Rs.1,541 crore in 1994-95 to Rs.1,825 crore in 1995-96. Elementary Education is particularly important, especially for improving the position of girls and women in our society. The outlay for Elementary Education is being increased substantially by 24.5 per cent to Rs.651 crore. Under Operation Black Board, primary schools with enrolment of more than 100 children are being provided a third teacher. The allocation for Operation Black Board is being increased by 30 per cent for 1995-96. The allocation for post-matric scholarships for Scheduled Castes and Scheduled Tribes has been increased from Rs.105 crore in 1994-95 to Rs.145 crore in 1995-96. This will help additional coverage of deserving students. To assist the State Governments, Government of India is passing on all the external assistance received for Primary Education as grants to State Governments, irrespective of the terms on which the assistance is received by the Central Government.

41. The combined Plan Outlay for the Departments of Health and Family Welfare is being increased to Rs.2,251 crore in 1995-96. The allocation for the National Malaria Eradication Programme for 1995-96 is being increased by 32 per cent to Rs.139 crore, so that coverage can be extended to 163 million people with top priority being accorded to tribal areas and North Eastern States where the problem of malaria has been endemic. Rs.80 crore is being allocated in 1995-96 for the Leprosy Control Programme which aims to eliminate transmission of this disease by the year 2000. An allocation of Rs.726 crore is proposed for Family Welfare Services directly meant for rural areas, including Rs.160 crore for maintenance of 5435 Rural Family Welfare Centres and Rs.190 crore for the maintenance of 9577 Rural Sub-Centres.

42. Total non-Plan expenditure in 1995-96 is estimated to be Rs.1,23,651 crore. The outlay for Defence has been increased to Rs.25,500 crore, keeping in mind national security imperatives. An amount of Rs.5,400 crore is being earmarked for fertiliser subsidy in 1995-96. In addition, Rs.500 crore has been earmarked for cheaper supply of phosphatic and potassium fertilisers to farmers, thus raising the total effective fertiliser subsidy to Rs.5,900 crore. Food subsidy receives an allocation of Rs.5,250 crore.

43. Turning to revenue receipts, gross tax revenues at the existing rates of taxation, are estimated at Rs.1,03,762 crore. The payment of share of taxes to States is placed at Rs.29,388 crore. The net revenue receipts to the Centre, including non-tax revenues are estimated to increase from Rs.86,084 crore in 1994-95, to Rs.1,00,787 crore in 1995-96.

44. In the area of capital receipts, traditional market borrowings are put at Rs.3,700 crore. Other medium and long term loans are estimated at Rs.19,000 crore and short term loans at Rs.4,387 crore. Net external assistance is estimated at Rs.4,456 crore. As in previous years, the Government intends to continue the process of disinvestment of the equity of public sector enterprises. The Budget Estimates provide for receipts from disinvestment of Rs.7,000 crore, a significant increase from the figure of Rs.5,237 crore in the Revised Estimates for 1994-95.

45. Taking into account other changes in receipts and expenditure, total receipts at existing rates of taxation are estimated at Rs.1,67,151 crore, while total expenditure is estimated at Rs.1,72,151 crore. This results in a budget deficit of Rs.5,000 crore. The fiscal deficit emerging from these estimates for 1995-96 will be Rs.57,634 crore, which will be about 5.5 per cent of GDP. I would have liked to do better, but on balance I feel that a fiscal deficit of this order can be absorbed, if the existing growth momentum is maintained.

PART B

46. I now turn to my tax proposals for 1995-96.

47. Over the past three years, we have made a number of structural changes in our tax laws covering both direct and indirect taxes. Unlike earlier isolated attempts to modify the tax system, these changes were part of a medium term programme of tax reform guided by certain general principles that have gained wide acceptability. We wanted to build a structure which is simple, relies on moderate tax rates but with a wider base and better enforcement, serves the objectives of equity and provides the incentives and signals consistent with developing an internationally competitive, dynamic economy.

48. Direct taxation is the most equitable form of raising revenues, but our experience in the earlier years of high tax rates showed that high rates did not lead to high collections. I am happy to report that our decision to reduce rates and thereby encourage compliance has yielded good results. Personal income and corporation taxes, taken together, are expected to increase by more than 25 per cent in 1994-95. The share of direct taxes in GDP has increased from 2.1 per cent in 1990-91 to 2.8 per cent in 1994-95.

49. In the area of customs duty our objective was to reduce the high rates

of import duty gradually, so as to lower costs of production and improve competitiveness of user industries while allowing domestic producers facing competition from imported goods reasonable time to adjust. The strong growth of Indian industry in 1994-95, to which I have referred earlier, demonstrates conclusively that customs duty reforms have succeeded in imparting the necessary dynamism to industrial production.

50. In the area of excise duties, our objectives were to simplify the structure, broaden the base, reduce high rates of duty which encourage evasion, shift to ad valorem rates as far as possible and extend the coverage of MODVAT. The results are evident in the impressive growth of excise revenues in 1994-95.

51. I am reassured by these results that our basic strategy of tax reforms stands fully vindicated. Together with administrative steps being taken to improve revenue collection, I am now confident that we can create a tax structure which will ensure buoyant revenues while also stimulating growth of production and employment.

52. Mr. Speaker Sir, after this brief overview, I would like to present the details of my proposals relating to direct taxes.

53. I have received many representations from Members of Parliament, trade unions and others requesting for increase in the exemption limit for personal income-tax. Our Government has consistently responded to the genuine needs of the common man. I, therefore, propose to further raise the exemption limit for income tax from Rs 35,000 at present, to Rs. 40,000.

54. We need to strengthen incentives for savings. At present, under section 80L of the Income-tax Act, income by way of interest and dividend from certain specified financial assets is exempt from income tax to the extent of Rs.10,000 per annum. In order to provide greater fillip to domestic savings by individuals and HUFs, I propose to raise this limit to Rs.13,000. This will provide both relief and an added incentive for savers.

55. With these changes, a salaried individual will not pay any tax upto a salary level of Rs.55,000. In the case of working women, this limit is even higher at Rs. 58,000. In addition, such an individual would benefit from an additional exemption of Rs.13,000 if he or she takes full advantage of the exemption for income from savings instruments under section 80 L. The tax exempt income could therefore reach a maximum of Rs 68,000 generally and Rs 71,000 for working women. It is only beyond this level that such individuals will start paying tax and that too only at modest rates.

56. Inadequate infrastructure is a key constraint to our economic progress. In order to promote expansion of quality infrastructure, I propose to allow a five-year tax holiday for any enterprise which builds, maintains and operates infrastructure facilities in the area of highways, expressways and new bridges, airports, ports and rapid mass transport systems. This tax holiday will be available to enterprises which commence operation after 1st April,1995 . As an incentive to financial institutions to provide long-term finance for development of such infrastructure, I propose to allow a deduction of upto 40 per cent of their taxable income derived from financing of these investments, provided this amount is credited to a special reserve.

57. Under section 80-IA of the Income-tax Act, new industrial undertakings, hotels and shipping concerns commencing operation before 31st March, 1995 are entitled to a deduction of 30 per cent of their income if they are companies or 25 per cent of their income if they are non-corporate entities. This incentive is available to co-operative societies for the first 12 years, and to others for the first 10 years of operation. As a special measure of support to small scale industries, I propose to extend this concession to them for five more years. Thus, new industrial undertakings in the small scale sector which commence operation before 31st March, 2000 will be eligible for this concession.

58. Exports of software have grown rapidly and represent a potentially dynamic segment of export earnings. Software exporters have, however, represented that the deduction under section 80HHE available to them is extended from year to year whereas section 80HHC for export of goods is open-ended. I propose to accede to their request to place section 80HHE on the same basis as section 80HHC.

59. Venture capital funds can be an important instrument for promoting growth of new firms and technologies which often involve high risk. The tax laws of many countries allow income of such funds to be exempt from taxation in the hands of the fund but tax it, after distribution, in the hands of the shareholders. In order to encourage the formation of venture capital funds on similar lines in India, I propose to exempt from tax, income by way of dividend and long term capital gains from equity investments made by approved venture capital funds or venture capital companies. Such venture capital funds will be required to invest only in unlisted companies engaged in manufacturing. Income will, however, be fully taxable in the hands of the shareholders.

60. On Independence Day, 1994, the Prime Minister had announced the launching of the Integrated Urban Poverty Eradication Programme. Under this programme, the Ministry of Urban Development is setting up a National Urban Poverty Eradication Fund (NUPEF). I propose to allow 100% deduction from income in respect of contributions made to this fund.

61. Under section 80-U of the Income-tax Act, a separate deduction of Rs.20,000 is allowed from the total income of handicapped persons. I have received several representations from handicapped persons and welfare organisations stating that these individuals need additional relief on account of increased cost of medicines and living aids. Recognising their needs, I propose to raise the level of deduction for handicapped persons from Rs.20,000 at present to Rs.40,000.

62. Many voluntary relief organisations have represented that the parents or guardians of children with severe disability, such as spastic children, face great mental agony having to worry about the burden of providing for the maintenance of the disabled after the death of the parents or the guardian. I see merit in this representation. I, therefore, propose to allow a new deduction of upto Rs. 20,000, from the taxable income of parents or guardians of handicapped children provided this amount is deposited in any approved scheme of LIC, UTI etc. for providing recurring or lump sum payment for the maintenance and upkeep of a handicapped dependant after the death of parents or the guardian.

63. A number of funds have been established by trade unions for the

welfare of the employees and their dependants. These funds are used to provide cash benefits in the event of superannuation, illness or death or to meet the cost of education of the employees' children. I propose to exempt the income of such funds from income tax.

64. The National Minorities Development and Finance Corporation has been set up in pursuance of the announcement made by the Prime Minister on Independence Day, 1993. The main object of the Corporation is to promote economic and developmental activities for the benefit of the members of the minority communities. I propose to exempt from income tax the income of this corporation as well as of similar corporations established by any State Government. I also propose to allow deduction in respect of donations made to these corporations, under section 80G of the Income-tax Act .

65. Upgradation of human resources is a high priority. The fundamental need is for improvement of primary and adult education in rural and semi-urban areas where facilities for such education are deficient. In addition to public funding, we have to encourage private contributions for this purpose. In 1993, I had extended the benefit of 100% deduction from taxable income for donations to universities and educational institutions of national eminence. This year, I propose to extend 100% deduction for donations to Zila Saksharta Samitis constituted in the districts for the promotion of elementary education. This measure will help to mobilise additional resources for elementary and adult education in rural and semi-urban areas and enable us to intensify our total literacy campaign.

66. All over the world, revenue administrations widen the tax base by enlarging the scope of deduction of tax at source. This brings in more persons into the tax net and assists the transition to lower rates of taxation. It also helps in the reporting of correct incomes. In many countries, income from professional and technical services is subject to deduction of tax at source. In order to prevent under-reporting of income in this sector, I propose to introduce a new provision in the Income-tax Act subjecting the sums payable by way of fees for professional or technical services to the requirement of deduction of income-tax at source at the rate of 10 per cent. There will be no deduction of tax at source where the aggregate of payments or credits during the financial year is below Rs.20,000 or where payments are made by individuals and HUFs.

67. Tax is deducted at source on payments made in excess of Rs. 10,000, to contractors under section 194C of the Income-tax Act. Legal disputes have arisen whether the TDS provisions will apply to transport contracts, advertisement contracts, broadcasting contracts, telecasting contracts and catering contracts. To avoid further litigation and check tax avoidance, I propose to provide for deduction of tax at source in these cases at the existing rate of 2 per cent for the main contract and 1 per cent for sub-contracts. Taking into account the inflation over the years, I also propose to raise the limit below which deduction at source is not necessary from Rs.10,000 at present to Rs.20,000.

68. The income from units of mutual funds or of the Unit Trust of India, though liable to income-tax, is not subject to deduction of tax at source in most cases. This has led to non-reporting or under-reporting of such income. In order to prevent misuse and ensure a uniformity of treatment with other financial instruments

I propose to provide for deduction of tax at source from such incomes at the rate of 20 per cent in the case of companies and at the rate of 15 per cent for all others including individuals and HUFs. There will be no change in the present tax treatment of non-residents or offshore funds. In the case of resident unit-holders, deduction of tax at source will be made only if the aggregate amount of income payable under each scheme during a financial year exceeds Rs.10,000. No deduction of tax at source will be required where units have been issued under an existing scheme which provides for payment of a fixed amount after a certain period of time or where post-dated cheques have already been issued towards payment of income.

69. I also propose to provide for deduction of income-tax at source from interest on time deposits with banks at the rate of 20 per cent plus surcharge in the case of domestic companies and 10 per cent in the case of individuals and other non-corporate entities. The new provision will be applicable only to the deposits made on or after 1st July, 1995. No tax shall be deducted if the amount of interest credited or paid during a financial year is Rs.10,000 or less branch-wise. Thus, persons having small deposits will not be affected by the requirement of deduction of tax. The existing facility of non-deduction of tax, where the recipient of interest has no taxable income will also be available. Interest on time deposits with primary co-operative credit societies, co-operative land mortgage banks and co-operative land development banks will be outside the scope of this provision.

70. Chapter XX C of the Income-tax Act empowers the Central Government to make pre-emptive purchase of immovable properties, beyond a prescribed limit, which, at present, is Rs.10 lakhs. A single monetary limit for all the notified cities needs to be revised in the context of local variations in real estate prices. I, therefore, propose to make a provision for prescribing different monetary limits for different cities.

71. Hon'ble Members are aware that the searches conducted by the Income Tax Department are an important means of unearthing black money. However, undisclosed incomes have to be related to the different years in which the income was earned and as such assessments are unduly delayed. In order to make the procedure more effective, I am proposing a new scheme under which undisclosed income detected as a result of search shall be assessed separately at a flat rate of 60 per cent. An appeal against the order can be filed directly before the Income-Tax Appellate Tribunal.

72. In allowing deduction for depreciation, 100 per cent deduction is allowed in the year of purchase for individual items of machinery or plant the value of which does not exceed Rs.5,000, The written down value of such assets is thereafter taken as nil. This provision was introduced as difficulties were experienced in keeping record of items of small value for purposes of allowance of depreciation. After switching over to the concept of block of assets with effect from 1st April, 1988, all the items of plant and machinery falling in a block are pooled together for allowing depreciation at the prescribed rates. There is, therefore, no justification for the continuance of this provision. I, accordingly, propose to provide that even items of machinery or plant costing less than Rs. 5,000 will form part of a 'block of assets' and depreciation will be allowed on the same at the rate specified in the Income-tax Rules.

73. I propose to amend the provisions of the Income-tax Act to provide that the taxable income may be computed only on cash or mercantile basis. It is also being provided that the taxpayers shall follow accounting standards as may be notified by the Central Government from time to time for various businesses. This provision is being made applicable from accounting year starting from 1st April,1996.

74. The calculation of capital gains on sale of bonus shares has led to several disputes. In order to simplify the position and avoid disputes, I propose that the cost of bonus shares for calculating the capital gains tax shall be taken at nil.

75. I now turn to my proposals regarding indirect taxes.

76. The thrust of my proposals is to continue the strategy of tax reform we have followed and reduce the cost of inputs to Indian producers, simplify the tax structure, minimize anomalies, promote competition and efficiency, lower prices paid by Indian consumers and thereby check the potential for inflation.

77. I shall deal first with import duties. The present peak rate of import duty of 65% is still very high compared to other developing countries, let alone industrialised nations. I propose to continue the process of phased reduction in the peak rate by lowering it to 50%.

78. The machinery and capital goods sector is a critical sector of our industry and it has responded extremely well to the new policies with a growth of 25% in April-November, 1994. I propose a package of measures which will further rationalise and simplify the import duty structure as applicable to machinery and capital goods, remove a number of anomalies and assist the industry in achieving a high rate of growth.

- At present the general import duty rate on machinery items is 25% but certain capital goods like generating sets and weighing machinery attract higher rate of duty. I am proposing to bring down the duty on these items also to 25%.
- The rate of import duty on machine tools, currently varies between 35% and 45%. I propose to unify the duty rates at 25% which is the general rate for machinery. Parts of such machine tools will also generally attract duty of 25%.
- Components of capital goods generally attract an import duty of 25% but components which contain electronic parts and components which are interchangeable with motor vehicle parts, attract higher rates. I propose to reduce the duty rate on these components to 25%.
- Quality control is a must for manufacturing industries if they have to improve the quality of their products. I am proposing to reduce the import duty on testing, quality control and other instruments from present rates varying from 40% to 60% to a uniform level of 25%. Parts of such instruments in general will also attract the same rate.

79. These proposals will unify the customs duty rates for nearly 80% of general machinery (both mechanical and electrical), machine tools, instruments

and projects at 25%. They will avoid anomalies relating to parts and components, reduce classification disputes and promote investment by reducing its cost.

80. Metals, ferrous and non-ferrous, are key inputs into capital goods and many other lines of production, many of which are undertaken by small scale producers. These items at present attract rates of duty varying from 50% to 60%. Ideally, such materials should not attract rates of duty higher than those on the capital goods. But keeping in view the need to allow domestic producers of metals a reasonable transition period, I am proposing to reduce the import duty rates on ferrous and non-ferrous metals to 40%. For unwrought non-ferrous metals like copper, zinc and lead, the import duty is proposed to be reduced to 35%. Import duty on hot rolled coils of iron and steel for re-rolling is proposed to be reduced from 40% to 30%, and that on stainless steel scrap from 30% to 20%. Import duty on sponge iron is proposed to be reduced from 30% to 20%. I also propose to reduce the import duty on a number of non-metallic minerals from 65% to 30%.

81. I am also simplifying the import duty structure on ball or roller bearings which currently attract different rates of duty depending on size, weight and description. Henceforth all ball or roller bearings will attract a uniform duty of 25% + Rs. 120/kg. The revised duty structure is likely to reduce the incentive for under-invoicing and smuggling.

82. Clothing and textiles are items of mass consumption. Yet our import duties on raw materials and inputs used to manufacture synthetic yarns, fibres and fabrics are on the high side. In view of this, and keeping in mind the continuing inflationary pressure in this sensitive area, I propose to reduce import duty on xylenes from 30% to 10% to lower the cost of manufacturing DMT/PTA. I am also proposing to reduce the import duty on DMT, PTA and MEG, being essential raw materials for the manufacture of polyester fibre and polyester filament yarn, from 60% to 35%. On caprolactum, a basic raw material for nylon, the import duty is proposed to be reduced from 60% to 45%. These changes should substantially reduce input costs to the user industries. To help ensure that the benefits are reflected in the prices of the final products, I also propose to reduce the import duty on synthetic fibres and filament yarns to 45% ad valorem.

83. I am also proposing to reduce the import duty on certain chemicals widely used in industry. On basic feed stocks like ethylene and benzene, the import duty is being reduced from 15% to 10%. On soda ash, caustic soda and linear alkyl benzene, the import duty is being reduced from 65% to 40%. On certain chemical intermediates like acrylonitrile, the import duty is being reduced from 30% to 20%. I am proposing to reduce the import duty on molasses from 65% to 10% to help the alcohol based chemical industries. The duty on LPG is also being reduced from 15% to 10%.

84. Electronics is a fast growing industry offering great promise for exports, employment and development in the small scale sector. In my last budget, I had conducted a major restructuring of duties to promote growth of this industry. As a further step in this direction, I propose to reduce the import duty on specified raw materials and piece parts from the present levels of 20% and 30% to a uniform level of 15%, on electronic components including printed circuit boards and colour monitor tubes from 40% to 25%, on populated printed circuit boards from 50%

and 65% to 35% and on computers, from 65% to 40%. I am also proposing to reduce the import duty on integrated circuits and hard disc drives to 25% which is likely to reduce the grey market in these products. Import duty on picture tubes for colour TVs is being reduced from 65% to 40%. To give a boost to the telecom optical fibre cable industry, I propose to reduce the import duty on optical fibres from 40% to 35%. I am also proposing to reduce the import duty on both systems and application software to a uniform level of 10% only. With these changes in duty structure, I expect this industry to show even more dynamism in future.

85. For promoting healthcare, last year I had simplified the import duty structure on medical equipment, exempted many types of life saving equipment from payment of duty, and abolished the certification procedure for availing of the exemption for charitable hospitals. In order to help manufacture and maintenance of medical equipment, I am extending the benefit of full exemption from import duty to all parts of exempted life saving and sight saving equipment . Some crucial spare parts of other dutiable medical equipment such as populated PCB will attract an import duty of 15%. I am also proposing to fully exempt linear accelerators, which are vital for the treatment of cancer patients. There are also proposals for reduction of import duty on a large number of drug intermediates from 50% to 40%.

86. Our printing industry needs quality paper so as to establish a foothold in the international field. With this in view, I am proposing to reduce the import duty on paper from 65% to 40%.

87. To promote exports of finished leather and make it more competitive, I propose to abolish the export duty on finished leather.

88. Agriculture is the lynchpin of our economy and employs two thirds of our labour force. In order to help agriculture and allied sectors directly, I propose reducing import duties on certain items. I am proposing to reduce the import duty on grand parent poultry stock from 30% to 20%. On certain drugs used as feed mix for poultry, the duty is being reduced from 65% to 15%. For the fishing industry, I propose to reduce the import duty on certain vaccines, prawn feed mix and preparations for prawn processing from 65% to 15%. Agriculture and allied sectors will also be helped by the general reduction in import duties on general machinery and components. I have, however, proposed an increase in import duty on malt and starch from 10% to 30%, that on silk cocoon from 30% to 40% and on oleopine resins from 10% to 20% in order to give necessary protection to these sectors.

89. I propose to raise the free baggage allowance for passengers coming to India from Rs. 4000 to Rs.6000. Beyond this limit, the duty rate now is 100% which I propose to reduce to 80%. I hope this will provide welcome relief to our people working abroad and to travellers in general. At present import of goods through a courier attracts import duty at the rate of 100% upto Rs.10,000/-and 200% thereafter. There has been a long standing demand from industry that goods imported through a courier should be charged at the relevant rate for the item being imported. I am making a provision to this effect in the Finance Bill. Pending passage of the Legislation, I am proposing that goods imported by a courier will attract a duty of 80% without any value limit.

90. I now turn to my proposals for excise duties.

91. In my earlier budgets, I had exempted from excise duty a large number of items of common consumption like processed food, dairy products, jam, jelly, butter, cheese, tea and coffee. Many other items of mass consumption like cooking oil, bicycles and their tyres, kerosene stoves, bread, spices and household utensils are also exempt from excise duty. My proposals in this budget will further reduce the burden of excise duties on articles which are widely consumed.

92. A number of articles of mass use are made of plastics. Plastics are also finding increasing use in agriculture and agro-processing. The present rate of duty on this basic material is 30%. I propose to bring down the rate of duty on plastics to 25%. On the dutiable articles made from plastics also, I propose to reduce the excise duty to 25%. However, articles of plastics which are exempt at present will continue to be so. These measures are being combined with a reduction in the import duty on bulk plastics from rates varying between 45% and 65% to a uniform rate of 40%.

93. At present, we have a uniform excise duty of 15% on all metals except aluminum. I now propose to reduce the excise duty on aluminum also from 20% to 15%.

94. In order to remove areas of dispute in classification and to rationalise the duty structure, I propose a uniform excise duty of 15% on parts of capital goods as against present rates which vary from 10% to 25%. This will avoid disputes as to whether a particular item should be considered as an article of metal or component of a machinery.

95. I am also proposing a concessional rate of excise duty of 10% on glassware produced by the labour intensive mouth blown process as against the present rate of 20%.

96. Many Honourable Members of Parliament have suggested that there are certain sectors of the industry which are both highly labour intensive and belong to the unorganised sector and that they deserve complete exemption from excise duty. Having regard to these requests, I propose to exempt the following from excise duty:-

- HDPE and polypropylene mono-filaments which are mainly used for making fishing nets and mosquito nets;
- metal containers made without the aid of power;
- non-elastic narrow woven fabrics of cotton;
- unbranded surgical bandages; and
- tarpaulin cloth made without the aid of power.

97. As part of the process of reducing higher end duty rates, I am proposing to lower excise duty:-

- on aerated water from 50% to 40%;

- on air conditioning machinery from 60% to 40%;
- on cosmetics from 50% to 40%;
- on glazed tiles from 40% to 30%.
- on perfumed antiseptic cream from 30% to 20%.

98. I am also proposing reduction in excise duty in certain areas of general consumption -

- on polymer based paints from 30% to 20%;
- on cocoa and cocoa preparations from 25% to 20%;
- on malt based food preparations from 25% to 20%;
- on asbestos fibres from 20% to 10%;
- on asbestos cement articles from 30% to 25%.
- on audio and video magnetic tapes from 30% to 20%;
- on dry cell batteries from 25% to 20%;
- on coated fabrics from 35% to 25%;
- on ceramic laboratory ware from 30% to 20%.
- on fireworks from 20% to 15%.
- on parts of motor vehicles and two-wheelers from 20% to 15%.
- on glass containers from 30% to 20%.

99. I propose to reduce the excise duty on polyester filament yarn from 69% to 57.5%. The rate is still high but revenue constraints rule out any further reduction for the present. The concurrent reduction in import duties, indicated earlier, will help ensure that the benefit of excise duty reduction is passed on to consumers.

100. The textured polyester yarn industry has complained about the burden of excise duty of 69% on the value addition in their industry. I am proposing suitable adjustment in the tariff value of textured yarn so as to reduce the total duty burden at the texturising stage from Rs. 10.35/kg to Rs.4.60/kg. On sewing thread which currently attracts excise duty at rates varying from 23% to 69%, I am proposing a uniform duty of 23%.

101. I have some proposals which are in the nature of anti-evasion measures. I am proposing an excise duty of 10% on wool tops so as to check evasion of excise duty at the woollen yarn stage. As full Modvat credit will be available, the tax will fall only on those who are evading excise duty at the yarn stage. I am also proposing a minimum excise duty of Rs. 10 per kilo on waste and scrap of fibre and yarn so as to discourage the tendency to clear good quality fibre and yarn in the guise of waste. It is also being clarified that yarn made predominantly from synthetic waste will attract the same rate of duty as yarn made from staple fibre.

102. Insulated wires and cables attract a duty of 30%. As these have wide household and industrial application, I am proposing to reduce the duty to 25%.

103. There is a persistent demand from the plastic woven bags manufacturers for extending Modvat to the users of such bags. I am now proposing that users of such plastic bags as well as jute bags be allowed full credit of excise duty paid on such bags. Cement industry is one of the major consumers of such bags. I am simultaneously proposing a modest increase in excise duty on cement from Rs.330 to Rs.350/MT for integrated cement plants and Rs. 185 to Rs. 200/MT for mini cement plants. For the mini cement plants using vertical shaft kilns, the daily clearance limit is also being raised from 200 to 300 MT per day.

104. Certain items of china and porcelain ware attract a duty of 30% which is on the high side for a product which is increasingly of common use. With a view to giving relief to the consumers, I am proposing to reduce the duty to 15%.

105. Small scale units play a significant role in the economy of the country. Currently, only units whose turnover of dutiable goods did not exceed Rs. 2 crore in the preceding financial year are eligible for the concessional rates of excise duty under the general small scale industry exemption scheme. I have received representations that the present limit of Rs. 2 crore is too low and that it acts as a disincentive to future growth. I am thus proposing to raise the eligibility limit for availing of the SSI exemption scheme to Rs. 3 crore.

106. There has been a perpetual problem with manufacturers of exempted goods as they may have to pay excise duty on waste and scrap generated during the process of manufacture. It does not seem very logical to bring these units under the excise control only for the purpose of charging duty on such waste and scrap. I am thus proposing to fully exempt waste and scrap which arise in the manufacture of exempted goods. This should help a large number of units in the small scale sector.

107. I am also proposing abolition of the system of filing of classification lists. From 1st May, 1995, the manufacturers need not file any classification list before clearing goods from the factory.

108. There have been requests from trade and industry for liberalisation and simplification of Modvat scheme. With this end in view, I am proposing the following relaxations in the Modvat Rules-

- Allowing Modvat credit for specified quality control, testing, pollution control and R&D equipment;
- Utilisation of Modvat credit for payment of duty on any goods notified under the Modvat scheme;
- Allowing Modvat credit for furnace oil and low sulphur heavy stock used for generation of power in a factory manufacturing excisable goods.

109. I am also proposing to extend Modvat for tyre yarn used in tyres by imposing a duty of 20% on the intermediate tyre cord fabrics. To make up for the revenue loss, the specific rates of duty on tyres are being raised by about 8%. Excise duty on tyres for two wheeled and three wheeled vehicles is, however, not being raised.

110. I am proposing extension of Modvat scheme to industrial fabrics. In the case of woollen fabrics also, I am proposing to extend Modvat fully, as such fabrics already attract basic excise duty and enjoy limited Modvat facilities.

111. I am also proposing to broadly align the Central Excise Tariff on textiles on the lines of the harmonised system of nomenclature. This will help reduce classification disputes.

112. Consonant with the increase in prices, I am proposing an increase in the existing specific rates of duty on cigarettes by about 7%.

113. I have also proposed certain amendments in the Finance Bill seeking to effect changes in the Customs Act, the Central Excises and Salt Act and excise and customs tariffs. These include certain consequential amendments to the customs tariff based on the amendments to the Harmonised Commodity Description and Coding System which has been adopted by our country in terms of International Convention on the Harmonised System. The amendments are merely enabling provisions and do not have significant revenue implications. In order to save the time of the House, I do not propose to recount them.

114. The increases in excise duties are expected to lead to a revenue gain of Rs. 335 crore while the reliefs will amount to Rs. 646 crore in a full year. Of the total net loss of Rs. 311 crore, the loss to the Centre will be Rs.203 crore and that to the States Rs.108 crore. On the customs side, the proposals would result in a revenue loss of Rs. 1179 crore. Applying conventional methods of estimation, the proposed changes in direct taxes are expected to lead to a revenue loss of about Rs.900 crore on account of Income tax, of which the loss to the States would be about Rs.700 crore. Total net loss to the Centre would thus be Rs. 1582 crore.

115. These methods do not take adequate account of the gains from simplification, rationalisation and improved tax compliance. Last year, the net loss from the revenue proposals on the basis of conventional estimates was placed at more than Rs. 4000 crore. However, I had predicted that because of gains from compliance and better administration our revenues would not suffer any loss. This optimism has been fully justified by performance as indicated in the Revised Estimates for 1994-95. The tax changes I have proposed in the budget are essentially a continuation of the efforts made in the previous year and I am confident that the gains from the reform will ensure that there will be no revenue loss. I am not, therefore, assuming any revenue losses from my Budget proposals. Hence the fiscal deficit will remain at 5.5% of GDP.

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

117. Honourable members may recall that in my first Budget Speech, I had affirmed that no power on earth could stop an idea whose time had come. I had also stated that the emergence of India as a major economic power was such an idea. It is this vision, of a resurgent India, taking her rightful place as an economic power house in Asia, which has inspired our economic policies. Our Government has worked hard to convert this vision into a reality, and I think the House will agree with me that our efforts have met with considerable success. We have sought to mobilise the collective will of our people for development through an action programme which commits us to the twin pursuit of excellence and social justice. There is no parallel example in the world of a country of India's size and diversity seeking to bring about a massive social and economic transformation in the framework of a democratic polity and an open society committed to the rule of law and individual freedom. India's experience is, therefore, of great worldwide

significance. The world is certainly watching us with interest and expectation.

118. As I see it, India is on the threshold of unprecedented opportunities provided we have the wisdom to seize them. We have made a good beginning but there is still a vast unfinished agenda. We have to persevere in our efforts. This will call for hard work and dedication and a measure of self-discipline on the part of all sections of society. We must never forget that a higher standard of living for our people can become a reality only through an all round increase in productivity. Clearly there are no short cuts to it. We cannot simply spend our way into prosperity. Those of us in politics have a special responsibility. The pursuit of competitive politics must not be allowed to distract our people's attention from the basic task of nation building. Politics in this country must recapture the spirit of idealism and self sacrifice, which inspired our freedom struggle, and become a purposeful instrument of social change. This then is no time for rest or to fritter away our energies in partisan strife. It is a time for rededication and reaffirmation of our collective solemn resolve to work tirelessly for building a new India worthy of the dreams of the founding fathers of our Republic, an India which will enable our children and grand children to lead a life of dignity and self respect, to take pride in being Indian and to grapple effectively with the challenges of the twenty-first century.

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

[15th March, 1995]