

**SPEECH OF
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INTRODUCING THE INTERIM BUDGET FOR THE YEAR 1957-58***

Highlights

— Need to Increase Export Earnings Emphasised

Sir, I rise to present the Budget of the Central Government for the year 1957-58. In 1952, under similar circumstances, my predecessor presented an interim budget. Its main purpose is to place before Parliament, an account of the finances of the Central Government for the current year and to obtain from the House a Vote on Account to meet Government's expenditure until the new Parliament considers the budget again.

The White Paper on the Budget which is being circulated separately attempts to give a review of major economic developments during the year. It is, therefore, not necessary for me to cover the whole ground over again.

The year under review has been a year of some strain from the point of view both of internal and of external resources. Domestic prices as well as the balance of payments have been under pressure, mainly as a result of the growing tempo of developmental activity. The decline in agricultural production in 1955-56 and external factors, such as the closure of the Suez Canal have added to the strain on the economy. The

Interim Budget, 1957-58		
Total Revenue	—	Rs. 636.22 crore
Total Expenditure	—	Rs. 663.09 crore
Deficit	—	Rs. 26.87 crore

* Lok Sabha Debate, 19.3.1957, cc. 76-82.

White Paper mentions the various measures we have taken in the last few months to bring the situation under control, and I have every hope that these measures will prove effective in due course.

The outlook on internal prices depends considerably on the level of agricultural production, and Government are fully seized of the urgency and importance of achieving better results in this sphere. Price stability also requires control over credit and a budgetary policy which restricts the purchasing power in the hands of the public. We have taken steps recently to apply selective credit controls, while taking care at the same time not to cut down unduly the supply of credit needed for the expansion programmes in the private sector. Basically, what we need is more savings, not less investments. In the matter of budgetary policy, I must say I am not happy with the size of deficit to which I shall presently be referring. In this context, the increasing demands being made on our resources by Defence requirements cannot be lightly passed over. The increase under this head, as you will see, is the major element in widening the deficit on revenue account in the coming year. The overall deficit in the Budget, viz., Rs.365 crore is, I am afraid, somewhat large considering the economic situation. There is certainly no slack in the economy at present which would permit a complacent view of the budgetary deficit. Defence is hardly an item on which we should like to spend more either in terms of domestic currency or of foreign exchange. If, however, the exigencies of the situation make such increases inevitable, the necessary sacrifices have to be made.

The crucial problem at this juncture, however, is that of foreign exchange. The Second Five-Year Plan with its emphasis on the development of industry, mining and transport has a large foreign exchange component, and it now appears that the deficit in the balance of payments over the Plan period will be larger than was originally estimated. This is due both to the increase in the prices abroad and to the expansion of some of the projects included in the Plan. In fact, the draft, on our foreign exchange resources has already been heavier than we had expected; since April 1956, this has amounted to about Rs. 260 crore. This strain on the balance of payments has necessitated the stiffening of import policy which was announced in January.

The foreign exchange situation as I now see it for the Plan period is briefly as follows. The total deficit in balance of payments over the Plan period is likely to be about Rs. 400 crore more than was envisaged in the Plan. Taking into account the external finance that might be available for our various projects and the balance available from the authorizations of the First Plan period, we have in hand foreign exchange of the order

of Rs. 450 crore to meet our requirements. With this, and assuming the continuance of aid from the U.S.A. and Colombo Plan countries more or less on the present scales and allowing for a moderate amount of private foreign investment coming in, we may take the total of resources in sight at about 50 per cent of the total requirements. We are at present negotiating with the International Bank for Reconstruction and Development in respect of loans to cover the foreign exchange needs of several of our development projects. We are also exploring possibilities of deferred payments in respect of our imports of capital goods from various countries. On the whole, the prospects of our being able to raise the foreign exchange resources for the Plan are not altogether discouraging. This, of course, is not to say that the task is by any means easy.

For tiding over the period which must necessarily elapse before the new import policy becomes effective, we have obtained accommodation totalling in all \$200 million from the International Monetary Fund. The problem, I must emphasize, is not one of achieving a balance in our external accounts by just cutting down imports. The task is two-fold. Firstly, every care has to be taken to phase Plan expenditure in a manner that will not impose an excessive strain on the balance of payments. This requires adherence to a strict system of priorities within the general framework of the Plan. Secondly, we have to find ways and means of financing the large imports that will still be essential for the Plan, and this calls for sustained effort along several lines. The first essential step is to increase exports so as to enlarge our foreign exchange earnings and to cut down imports to the extent possible. Neither of these is possible without a sacrifice, but the sacrifice has to be made in the interest of planned development.

The Second Five-Year Plan, needless to say, will strain the economy. But, I think, at this stage it is important to think of how best to meet this strain rather than to question the basic assumptions or postulates behind the Plan. The path of development does not always run smooth. The experience of recent months only reinforces the well known fact that the balances implicit in a five-year programme of development have to be checked and rechecked continually in the light of experience. The balances between investment and consumption, between available external resources and the claims on them, between the final flow of goods and services and the materials required for their production can hardly be estimated precisely in advance, and unforeseen factors do arise which upset these balances from time to time. It was in recognition of this fact that the Second Plan report laid considerable emphasis on flexibility in planning and on the machinery of annual plans to provide for the necessary adjustments.

For the immediate present, the need is for giving top priority to schemes which increase export earnings and reduce import needs without making an excessive claim on foreign exchange resources in the immediate future. Schemes which contribute most to an early increase in agricultural production also deserve high priority; schemes which have already been commenced and on which considerable expenditure has been incurred, claim, in any case, a considerable proportion of the resources available. Government intend to be guided strictly by such priority considerations in determining the phasing of Plan expenditure; first things must necessarily come first. At the same time, we have to ensure, to the extent possible, that development programmes which are calculated to contribute most to an increase in the productive capacity of the country and a strengthening of the long-term balance of payments do not suffer unduly. While a review and adjustment of priorities and strict adherence to them are essential in view of the limitation of resources, every care is being taken to see that the momentum gathered by the Indian economy in the last three or four years is kept up. In the making of our budgets—which are essentially development-oriented—and in the formulation of policies, this positive aspect of the tasks in hand is being constantly kept in mind.

I would now give a brief account of the Revised Estimates for 1956-57 and the Budget Estimates for 1957-58.

The current year's Budget provided for a deficit of Rs.18.04 crore on revenue account after allowing for the modifications in the Finance Bill accepted by Parliament. I now expect that the year will close with a surplus of Rs. 37.94 crore. The improvement is largely due to better collections of revenue under Customs and Union Excise duties, the increase in the latter representing, in the main, the yield of the additional duty on cotton cloth imposed during the year. There has also been some saving in expenditure. Revenue, as a whole, is now placed at Rs. 571.49 crore, an increase of Rs. 44.10 crore over the Budget Estimates, and expenditure at Rs. 533.55 crore against the Budget figure of Rs. 545.43 crore.

Taking the Revenue and Capital Budgets together, the overall deficit this year is now placed at Rs. 216 crore against Rs. 356 crore assumed in the original Budget. This is the result of the improvement in the revenue account. I have just referred to and a saving of about Rs. 64 crore in the provision of Rs. 386 crore made for Loans and Advances to the State Governments and other parties.

For the year 1957-58, I estimate revenue, at the existing level of taxation, at Rs. 636.22 crore and expenditure at 663.09 crore, leaving a deficit on revenue account of Rs. 26.87 crore. These figures are inclusive of certain self-balancing items, aggregating Rs. 38 crore, which appear on both sides and do not affect the Revenue Budget as a whole. There is, thus, an increase of Rs. 26.73 crore in revenue and of Rs. 91.54 crore in expenditure as compared with the Revised Estimates for the current year.

Of the increase of Rs. 26.73 crore in revenue next year, Rs. 8 crore represent the estimated yield of the Capital Gains Tax and the additional super-tax on companies which take effect from 1 April 1957 and Rs. 12.40 crore the full year's effect of the increase in the duty on cotton cloth, the new duties on rayon, synthetic fibres and yarns and motor-cars levied during the year. The revenue from Customs Duties will drop by Rs. 9 crore as a result of the cuts on import quotas which have been imposed to conserve foreign exchange; but, against this, surplus profits of the Reserve Bank are expected to increase by Rs. 10 crore.

The total expenditure next year, excluding the self-balancing items, is estimated at Rs. 625.09 crore of which Rs. 252.71 crore will be on Defence Services and Rs. 372.38 crore under Civil heads. The provisions for Defence Services shows an increase of Rs. 49.76 crore which represents mainly purchases of essential stores for the Army and the Air Force. Civil expenditure also shows an increase of Rs. 41.78 crore over the current year's Revised Estimate, the increase being mainly in respect of nation-building, development and social services. Hon'ble members will find the main items mentioned in the White Paper and a fuller explanation of variations in the Explanatory Memorandum circulated with the Budget papers and I need not repeat them here.

The provisions for Capital expenditure and Loans to State Governments and others next year is placed at Rs. 772.21 crore against the current year's Revised Estimates of Rs. 636.15 crore. The increase is accounted for entirely by larger provision for the three steel plants and for Railways.

I have taken credit in the next year's estimates for a market loan of Rs. 100 crore; for small savings collections of Rs. 80 crore for foreign assistance of Rs. 135 crore and for transactions under other miscellaneous Debt, Deposit and Remittance heads of Rs. 119 crore. Allowing for these credits, the next year's Budget, taken as a whole, leaves an overall deficit of Rs. 365 crore.

I have mentioned earlier that I do not feel happy about a deficit of this order. The objective must be to reduce it to the extent possible by increasing the resources accruing to the public exchequer. May I, therefore, in conclusion, reiterate the point that considering the immediate requirements as well as the fact that Plan expenditure will have to be stepped up year by year, public revenues have to be enlarged steadily, and both the Centre and the States have to exert their utmost towards this end.
