## SPEECH OF SHRI MORARJI R. DESAI, MINISTER OF FINANCE, INTRODUCING THE INTERIM BUDGET FOR THE YEAR 1962-63*

Sir, I rise to present the Budget of the Central Government for the year 1962-63. The main purpose of this Budget 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 the expenditure of the Government until the new Parliament considers the Budget again.

The major developments in the Indian economy during the current year have been outlined in the Economic Survey which is being circulated separately. I shall, therefore, refer only brief to economic conditions in past twelve months before going on to give an account of the Revised Estimates for 1961-62 and the Budget Estimates for 1962-63.

The year under review has been the first year of the Third Five Year Plan. It is a matter of great satisfaction to me that despite the step-up in Plan outlays, which this House approved when the Budget for the year was presented, and despite the continuing upward trend in private investment, a measure of stability has been restored to the general price level. The more or less steady increase in the general level of prices during the Second Five Year Plan was a matter of major concern to the Government as well as to this House. This upward trend has been arrested during the current year and the general index of wholesale prices in recent weeks has been lower than a year ago. Since August 1961, the All India working class consumer price index has remained stable.

**Interim Budget, 1962-63**

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| **Total Revenue** | — | **Rs. 1,305.87 crore** |
| **Total Expenditure** | — | **Rs. 1,369.33 crore** |
| **Deficit** | — | **Rs. 63.46 crore** |

* *Lok Sabha Debate*, 14.3.1962, cc. 384-397.

The abatement of the pressure on prices is essentially a reflection of the improvement in production. During 1960-61, agricultural production has increased by 8.1 per cent, an all time record. During the first ten months of 1961, industrial production has shown an increase of about 7.6 per cent over the corresponding period in the preceding year. A notable feature of the year was the growth of output in some of the new mechanical and electrical engineering industries. Steel production went up from 2.2 million ton in 1960 to about 2.9 million ton in 1961. Significant increases were also recorded in the production of sugar, coal, cement, export products like tea and coffee, and in the field of chemical industries, sulphuric acid, caustic soda, soda ash and fertilizers.

While improvements in supplies have, undoubtedly, been of major importance in bringing about a better balance between supply and demand in the economy, the part played by fiscal and monetary policy should not be overlooked. The substantial volume of additional taxation which the House allowed me to introduce in the last Budget has contributed significantly to the enlargement of resources for development and keeping inflationary pressures in check. The Reserve Bank, for its part, has continued to pursue a policy of general restraint, with due regard to the genuine needs of investment in productive enterprises.

Turning from internal to external resources, the picture which I have to present is far less satisfactory. We had begun the Second Plan with our sterling reserves amounting to Rs. 746 crore. They were drawn down at a rapid rate throughout the Second Five Year Plan and we started the Third Five Year Plan with only Rs. 136 crore of sterling balances. Despite every effort to increase exports, to restrict inessential imports and to obtain external assistance to cover the balance of our indispensable import requirements to sustain and develop our economy, our sterling balances declined to Rs. 98 crore at the end of July 1961. One reason for this was that negotiations for aid for our Third Five Year Plan could not be finalized before the Plan started. To tide over the situation and to cover the time-lag in the availability of external aid for our Plan, we had to draw upon our second line of reserves with the International Monetary Fund to the extent of $250 million or roughly Rs. 119 crore, last August. Part of this drawing was offset by repayments in respect of an earlier drawing from the Fund during the Second Five Year Plan and on balance, a sum of Rs. 58.30 crore became available from the fund for augmenting our reserves during the current year. Even so, we are likely to end the current financial year with our sterling balances lower than at the beginning of the year.

Our export earnings have shown a distinct improvement during the current year. On present expectations, they would amount to something

like Rs. 665 crore during 1961-62—an improvement of 5 per cent over the level in the last year of the Second Plan. An even greater intensification of our export effort, is however, essential if we are to achieve the Plan target of total export earnings of the order of Rs. 850 crore by 1965-66.

Our imports during the current year have been running somewhat lower than in the last year of the Second Plan. The fact that despite a decrease in imports and an increase in exports, our balance of payments has not improved, is due largely to a deterioration of what is known as invisibles—repayment of loans and interest, travel and miscellaneous remittances of all kinds. We shall have, in the coming months, to pay special attention to our receipts and payments on account of invisibles. One of the things on which we are laying, and must continue to lay, the greatest emphasis is that we cannot afford to use short-term credits or credits which carry a high rate of interest.

I am happy to say that there is now greater appreciation abroad of the importance of giving aid to developing countries on specially favourable terms which will not put an unbearable burden on the economy in the years to come. Mr. Black, President of the World Bank, has been urging this policy upon all aid-giving countries and the International Development Association, which is affiliated to the World Bank, has already started making sizable loans to us which will be virtually free of interest and repayable over 50 years. The bulk of the developmental assistance from the United States in recent years was repayable in Indian currency. Loans from the new U.S. Aid Agency would be repayable in dollars; but the repayments would be spread over a very long period and, as in the case of the International Development Association, these loans are virtually interest-free. The Soviet Union and several other countries from Eastern Europe have been making loans to us at a low rate of interest; and at the same time increasing their purchases of Indian goods to enable us to repay these loans. Canada, as the House knows, has been giving us substantial aid in the form of grants. Federal Republic of Germany has lowered interest charges and lengthened repayment schedules significantly in recent loan agreements. The United Kingdom while raising the level of aid, has further lengthened the period of her credits. Japan has also moved in the same direction.

Another favourable trend in the sphere of international aid is the growing recognition of the fact that general support to a country's balance of payments is at least as important as the provision of resources for setting up individual identifiable projects. The true measure of economic progress and development is not the number of major industrial projects

that are set up in the country, but the general increase in levels of consumption and production, of income and saving, increase in industrial capacity is but one of the things through which this can come about. Increased production from existing industrial units is no less important. In a primarily agricultural economy like ours, an improvement in farm production through irrigation, through fertilizers, through better transport and communications, has a much bigger contribution to make to our development than an increase in the number of industrial projects.

The requirements of external assistance for the Third Plan, exclusive of imports of agricultural products financed under Public Law 480 of the United States, have been estimated at Rs. 2,600 crore. When we started the Third Plan, we had in hand assistance of the order of Rs. 700 crore either by way of carry-over from the Second Plan, or by way of commitments for projects to be taken up during the Third Plan. Subsequently, the consortium meetings arranged by the World Bank in May-June 1961 led to the provisional commitment of an additional amount of Rs. 1,100 crore. I am happy to note that the membership of the consortium is on the increase, France having already committed assistance to us through the consortium. Outside the consortium, we have received assistance from Italy for oil development. It has to be remembered that just as there was a carry-forward of commitments and aid from the Second Plan to the Third Plan, there is bound to be similar and perhaps larger throw-forward from the Third Plan to the Fourth Plan. This fact has to be borne in mind in negotiating further and during the rest of the Third Plan period.

In allocating the aid available, we have naturally given priority to the key sectors of our economy. Thus, it has been possible to cover the bulk of the requirements of power projects in the Third Five Year Plan. The expansion of the three Steel Plants in the public sector has the promise of necessary aid from the countries with whose cooperation they were originally set up. For oil exploration, production and refining, all but a small portion of the Plan requirements have been provided for. In other important sectors, such as railways, ports and shipping, the coal and manufacturing industries, generally, the coverage is about one half. The House would, no doubt, want me to take this opportunity of expressing our appreciation to the International Agencies, as well as to the individual countries which have so generously extended their assistance to us in our great endeavour.

While we are receiving aid from so many countries, we are not unmindful of the importance of making our own contribution, however, humble in this field and have been ready to help, whenever and wherever

possible, other developing countries of the world. As a participant in the Colombo Plan, India, amongst the countries in the areas of South and South-East Asia, is the biggest donor of technical assistance. We have also assisted in the preparation of the Mekong River Project in Cambodia and in giving technical assistance under the Special Commonwealth African Assistance Plan.

Turning once again from external to internal matters, I should like to refer to the report of the Third Finance Commission which has already been placed before both Houses of Parliament. We are accepting all the recommendations of the Commission for the sharing of Central taxes and payments of grants-in-aid except the one relating to statutory grants-in-aid being made to cover a part of the revenue component of State Plans. The reasons why we have not been able to accept the recommendations regarding the payment of a part of the plan grants as statutory grants-in-aid have been set out in the Explanatory Memorandum on the Report. I would merely like to reiterate that this decision does not in any way affect the totality of Central assistance towards the State plans which will continue to be made available on the basis of annual reviews of the overall financial position and other relevant factors.

The acceptance of the Finance Commission's recommendations involves an additional payment of Rs. 35 crore to the States next year and with the raising of the States' share of income-tax and the considerable increase in the number of shareable excises, the gain to the States in future years would be very much more. The crux of the matter, however, is not how resources are shared, but how they are mobilized in the aggregate; and in this great task of providing the financial resources necessary for our Plan, the States have as important a role to play as the Central Government.

I would now give an account of the Revised Estimates for 1961-62 and the Budget Estimates for 1962-63.

The Budget this year estimated the revenue receipts at Rs. 1,017.95 crore and expenditure met from revenue at Rs. 1,023.52 crore. On current trends, the revenue receipts are likely to go up to Rs. 1,079.11 crore and the expenditure to Rs, 1,045.15 crore, with the result that the budgeted deficit of Rs. 5.57 crore will be converted into a revenue surplus of Rs. 33.96 crore.

The improvement in revenue receipts is mainly due to better collections under Customs, Union Excise Duties and Corporation Tax and Income-tax. Larger imports of machinery and mineral oils and imposition of countervailing duties on the latter account for an increase of

Rs. 9.96 crore under Customs. Union Excises are expected to be more by Rs. 38.32 crore, following the general improvement in production and clearances, increase in the duty on mineral oils and better realizations from new excises. With the rapid growth of business and industry the revenue from Income-tax including Corporation Tax is likely to go up by Rs. 28 crore. These improvements, however, will be partly counter-balanced by the increase of Rs. 13.45 crore in the States' share of Income-tax and Estate Duty.

Civil expenditure this year is now estimated at Rs. 743.22 crore against the original budget of Rs. 740.60 crore and Defence expenditure at Rs. 301.93 crore against the original estimate of Rs. 282.92 crore.

The increase of Rs. 2.62 crore in Civil expenditure is the net effect of variations over a number of heads. Debt services are estimated to cost Rs. 4.20 crore more due chiefly to lower recoveries from the States and Railways. Subsidies on sugar exports and movement of coal by sea account for an increase of Rs. 8.25 crore. States' share of Excise Duty will go up by Rs. 4.60 crore and the transfer of the grant under P.L. 480 Funds to the Special Development Fund will exceed the original estimate by Rs. 3 crore. These increases in expenditure will, however, be partly counter-balanced by a number of savings, of which the major items are Rs. 12.06 crore under the group head "Social and Developmental Services", and Rs. 6.10 crore in the grant to the States *in lieu* of their share of Income-tax. The requirements of Defence Services are now expected to exceed the original Budget by Rs. 19.01 crore due mainly to increase in the provision for stores, equipment, transportation and other charges.

Before dealing with the estimates for the coming year, I would like to draw attention to certain changes in accounts which will come into effect next year. Honourable members will recall that, in my speech last year, I had referred to the decision taken in consultation with the Comptroller and Auditor-General to revise the accounting structure and to phase the changes over a period of two years. The changes, which are to be introduced next year, are set out in detail in the Explanatory Memorandum. I shall refer only to two main items. Recoveries of interest from State Governments and Commercial Departments have hitherto been adjusted in the accounts in reduction of interest charges. As this arrangement does not reflect the interest of the Government correctly, these recoveries will, from next year, be shown as interest receipts. Secondly, the working expenses of Commercial Departments like Railways and Posts and Telegraphs which are at present booked in the accounts in reduction of receipts, will be shown as expenditure in the future.

For the next year, on the basis of existing levels of taxation, the revenue is estimated at Rs. 1,305.87 crore and expenditure at Rs. 1,369.33 crore leaving a deficit of Rs. 63.46 crore.

As compared with the current year's Revised, the revenue estimates of the next year show an increase of Rs. 226.76 crore. Of this, Rs. 149.57 crore are attributable to the change in classification of interest recoveries from States and Commercial Departments, which, as explained earlier, are being treated as interest receipts next year. The rest of the increase is spread over a number of heads. Union Excise Duties are expected to show an improvement of Rs. 21.33 crore. Taxes on Income, including Corporation Tax, would go up by Rs. 14 crore, but the States' share of Income-tax and Estate Duty will be less by Rs. 3.57 crore due mainly to absence of arrear payments provided for in the current year. The grant from P.L. 480 Funds would exceed the current year's level by Rs. 27 crore. Other interest receipts are likely to go up by Rs. 6.36 crore. The receipts from Goa, Daman and Diu for the full year are expected to amount to Rs. 5.01 crore.

Of the expenditure of Rs. 1,369.33 crore next year, Rs. 1,028.66 crore will be under Civil heads and Rs. 340.67 crore for Defence Services.

Excluding Rs. 151.13 crore on account of changes in accounting classification of interest recoveries and working expenses of Commercial Departments, the Civil expenditure next year shows an increase of Rs. 134.31 crore which is distributed over a large number of heads. The growing volume of public debt, both internal and external, accounts for an increase of Rs. 12.23 crore under debt services. The provision for the various social and developmental services in the second year of the Plan would be more by Rs. 14.74 crore. Transfer of P.L. 480 grant to the Special Development Fund will exceed the current year's Revised Estimates by Rs. 27 crore. Following the acceptance of the Finance Commission's recommendations, the States' share of Union Excise Duties would be higher by Rs. 33.43 crore. Provision of Rs. 5.28 crore has been made for the requirements of territories of Goa, Daman and Diu and of Rs. 7.50 crore for payment to the Reserve Bank for the withdrawal of Escudo currency in these territories. Grants to States show a net increase of Rs. 13.79 crore. The rest of the increase is spread over a number of heads for which detailed explanations have been given in the Explanatory Memorandum.

The net expenditure on Defence Services in the coming year will be Rs. 38.74 crore more than in the current year. The increase occurs mainly under Army and Air Force estimates and reflects the cost of the measures taken to strengthen the Armed Forces. I am sure the House

will support these measures which are intended to safeguard the territorial integrity and security of the country.

The current year's Budget provided for a total capital outlay of Rs. 454 crore excluding the adjustment for the transfer of capital assistance from the United States to the Special Development Fund which is technically treated as Capital expenditure. The corresponding capital outlay is now estimated at Rs. 427 crore showing a saving of Rs. 27 crore. This is the net result of several variations. Food purchases would cost Rs. 18 crore less mainly due to the slowing down of imports under P.L. 480. Of the other important savings mention may be made of Rs. 6 crore under Defence Capital Outlay, Rs. 9 crore by the Oil and Natural Gas Commission, Rs. 6 crore by Heavy Engineering Corporation, Rs. 6 crore under Delhi Capital Outlay, Rs. 4 crore each by the National Coal Development Corporation and the Shipping Corporation. But these shortfalls will be partly counter-balanced by the increase of Rs. 10 crore on account of Railway Capital requirements, Rs. 7 crore for Hindustan Steel, Rs. 6 crore for Indian Refineries and Rs. 4 crore for Neyveli Lignite Corporation.

The corresponding provision for Capital Outlay next year is Rs. 588 crore representing an increase of Rs. 161 crore over the current year's Revised estimates. The increase is chiefly attributable to the stepping up of Plan Outlays in the second year of the Plan. Provision has been included for additional Capital requirements of Rs. 60 crore for Hindustan Steel and Rs. 197 crore for Railways representing an increase of Rs. 53 crore and Rs. 27 crore respectively over the current year's provision. Purchase of foodgrains would cost Rs. 16 crore more whereas Border Road requirement would exceed the current year's estimates by Rs. 12 crore. Of the rest of the increases, I would only mention Rs. 14 crore for the Oil and Natural Gas Commission, Rs. 7 crore for National Highways, Rs. 6 crore each for Heavy Engineering Corporation and Farakka Barrage Project, Rs. 6 crore for Defence Capital Outlay and Rs. 4 crore for Atomic Energy Research.

In addition to the provision for direct Capital Outlay, the estimates include Rs. 469 crore this year and Rs. 453 crore next year for loans to the States against the original provision of Rs. 409 crore. The grant of *ad hoc* loans amounting to Rs. 30 crore to four States to clear their over-drafts with the Reserve Bank at the end of the Second Plan and larger ways and means advances to cover the temporary lag in the resources of the State Governments explain the larger requirements in the current year. The loans to other parties are now estimated at Rs. 152 crore this year and Rs. 147 crore next year as compared with the original Budget of Rs. 171 crore.

The next year's estimates include a total provision of Rs. 1,107 crore for implementing the Plan, comprising Rs. 192 crore on Revenue Account and Rs. 915 crore as Capital Outlay including loans. In addition, Railways are expected to provide Rs. 26 crore and Hindustan Steel, Rs. 30 crore, from their own resources. The estimates include Rs. 405 crore as assistance to the States, of which Rs. 96 crore would be in the Revenue Budget and Rs. 309 crore in the Capital Budget. With the resources of Rs. 283 crore, which the States are expected to raise on their part, the total outlay on State Plans next year would amount to Rs. 688 crore. The outlay on the Central portion of the Plan will aggregate to Rs. 758 crore. The total Plan outlay for the second year of the Third Plan of both the Central and State Governments together will, thus, be of the, order of Rs. 1,446 crore. This would mean stepping up of the current year's budgeted outlay of Rs. 1,214 crore by 19.1 per cent. Allowing for possible shortfalls, the actual Plan outlay in the first two years of the Plan is likely to cover about one-third of the target of Rs. 7,500 crore envisaged in the Plan.

The Budget for the current year had estimated the overall deficit at Rs. 70 crore, of which Rs. 64 crore were expected to be met by expansion of treasury bills and the rest by the drawing down of the cash balance. According to the latest assessment, the overall gap is now expected to increase to Rs. 121 crore, This means that despite the revenue deficit of Rs. 6 crore having been converted into a surplus of Rs. 34 crore and despite a saving of Rs. 27 crore in capital expenditure, the overall gap will be Rs. 51 crore more than our original estimate. This is mainly due to shortfalls in both internal and external borrowings. Net market borrowings including small savings would show a drop of Rs. 38 crore, while the net borrowings from abroad would be less by Rs. 47 crore. P.L. 480 deposits would also show a shortfall of Rs. 36 crore.

For the next year, I am taking a credit of Rs. 260 crore from market borrowings including prize bonds and Rs. 105 crore net from Small Savings. The Budget also assumes a credit of Rs. 455 crore from foreign loans and Rs. 90 crore from P.L. 480 deposits, including Rs. 50 crore to be transferred from the moneys formerly deposited with the State Bank of India.

The overall budgetary position may now be summarized. The Revenue Budget is expected to show a deficit of Rs. 63 crore. Capital outlay will amount to Rs. 588 crore, loans to States and other parties, Rs. 600 crore and debt repayments, Rs. 227 crore. The total disbursement of Rs. 1,478 crore is expected to be met to the extent of Rs. 820 crore from internal and external borrowings, Rs. 218 crore from repayment of

loans, Rs. 90 crore from investment of P.L. 480 Funds and Rs. 203 crore from miscellaneous debt and deposit heads, leaving a gap of Rs. 147 crore.

At this stage, I would only emphasize how concerned I am over the fact that we are ending the current financial year, despite the buoyancy of revenues, with a bigger overall deficit that we had envisaged when the Budget for the year was introduced. We shall, therefore, need to do everything possible to enlarge our budgetary resources, so as to ensure stability in the economy.

Sir, I shall now conclude. In the recent elections, the nation has for the third time affirmed its confidence in our Plans and our policies. We shall have many Plans to fulfil before we reach our goal. On the whole, the Third Plan has begun well. There have been all-round increases in production and stability of prices. The external aid which we have received has enabled us, despite the continuing stringency of foreign exchange, to cover a good proportion of our developmental needs. But, there is no room for complacency. Each successive year will call for greater effort on the part of everyone if we are to move forward as fast as we want to, indeed as fast as we must.

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