[Shri Manoranjan Bhakta]

Time and again, this question was raised in this House saying how the figures are given. The Member who has spoken just now has rightly said that there are lakhs and lakhs of figures given here and, in reality, you will not find those figures. But those figures are floated. The reason is only one. The reason is just to mislead this country to show how grave it is and how the Government is not concerned about it. That is, perhaps, the intention behind it.

Another important point that I would like to mention here is about the citizenship.

MR. CHAIRMAN : Shri Manoranjan Bhakta, you mention it next time. You can continue next time.

The House stands adjourned to meet at 5 p.m. today.

16.00 hrs.

The Lok Sabha adjourned till Seventeen of the Clock.

17.01 hrs.

[English]

The Lok Sabha re-assembled at one minute past Seventeen of the Clock.

[MR. SPEAKER *in the Chair*]

GENERAL BUDGET

MR. SPEAKER : Mr. Finance Minister.

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : Sir,

I rise to present the Budget for the year 1997-98.

The Government headed by Prime Minister Shri Deve Gowda completes 9 months today. When I stood before this House on July 22, 1996, this House received my proposals with a mixture of wonder, curiosity and scepticism. I was, after all, the Finance Minister of the first genuine coalition Government at the Centre. I was also the first Finance Minister who belonged to an avowed regional part, albeit with a national outlook.

Hon'ble Members will indulge me for a few minutes while I reflect on those eventful days in May 1996. One national party acknowledged that it had lost its claim to form the Government. Another tried, but failed. It is in that situation that regional parties, and certain parties with a larger national presence, came together to form the United Front Government. These parties — long regarded as children of a lesser God — have demonstrated that, given the opportunity, they can form a Government not only at the State level but also at the Centre. Inspired by the idea of a truly cooperative federal polity, Chief Ministers have assembled, more often that ever before, at the Inter-State Council, the National Development Council and at Special Conferences to formulate national policies. The formation of the Government by the United Front and our efforts to take decisions by a national consensus, in the fiftieth year of India's independence, have deepened and broadened Indian democracy.

Hon'ble Members will find that there is a strong continuity between my first Budget and the present one. The foundation of the Budget remains the Common Minimum Programme. The experidnce of the last eight months has demonstrated the enormous strengths of the programme. Drawing on the CMP, my first Budget articulated seven broad objectives. These objectives embraced vital elements such as growth, basic minimum services, employment, macro-economic stability, investment (particulrly in infrastructure), human development and a viable balance of payments. I believe these objectives remain as valid today as they were eight months ago.

On the last occasion, I had made over forty specific promises on policies and programmes. I have carefully taken stock of the situation, and Hon'ble members will be pleased to know that I have fulfilled all these promises, save one, to which I shall refer presently. To recall the more important ones, I am happy to state that we have

* Provided an additional sum of Rs. 2466 crore to the States for seven Basic Minimum Services;
* Funded the Rural Infrastructure Development Fund (RIDF)-II with Rs. 2500 crore;
* Expanded the list of industries eligible for automatic approval for foreign equity investment;
* Set up the Disinvestment Commission and the Tariff Commission;
* Introduced the Jeevan Suraksha and the Jan Arogya insurance schemes; and
* Launched the Accelerated Irrigation Benefit Programme.

The one commitment that I have been unable to keep is to set up an Expenditure Management and Reforms Commission. I failed because I wanted an A team and I was not content with a B team. Key members of the A team are in this House and in the Rajya Sabha, and they still elude me. I shall keep trying. Meanwhile, I have not let up on my resolve to keep expenditure within the Budget, and I have achieved a fair measure of success.

Current Economic Situation

The Economic Survey 1996-97 was laid in Parliament a few days ago. It provides a detailed and balanced account of the state of the economy. There is indeed much to be done, but there is also much to be proud of. The outstanding feature of the economy is that the GDP has been growing during the last three years at an average rate of 7%. I salute the farmers, the workers, the entrepreneurs and the service providers who have made this possible.

The positive features of our economic performance in 1996-97 include :

* Continued high economic growth at 6.8%.
* A strong recovery of growth in agriculture and allied sectors to 3.7%, after a disappointing minus 0.1% in 1995-96;
* Rebound in foodgrains production to 191 million tonnes;
* Manufacturing sector growth at 10.6%; and
* A sizable build up in our foreign currency reserves from US$ 19.5 billion as on yesterday, February 27,1997.

I shall not be true to myself or to the country if I did not highlight the areas of weakness. Two areas of great concern are the sharp drop in domestic crude oil production and the sluggish performance of the power sector. Other matters of concern include a deceleration in the growth of exports, a rise in the rate of inflation and a volatile capital market. Government has addressed these concerns through some far-reaching initiatives in the last three months. I have also fresh proposals in this Budget.

Macroeconomic management involves, inevitably, striking a balance between various objectives and considerations. As Hon'ble Members are aware, in 1995-96, the growth in money supply was reduced sharply to 13.2%. Although this helped to contain inflation, it also led to high real interest rates, a widespread perception of a liquidity crunch and a slackening of investment proposals. Since June 1996, corrective action has been taken which has eased the availability of money and brought down the interest rates. The long-delayed increase in the prices of petroleum products and supply-side problems, arising mainly out of lower production and lower procurement of wheat in the last season, exerted pressure on the price level. Government has taken a number of steps to maintain price stability. Paddy production and procurement in the *Kharif* season have been satisfactory and we have adequate stocks of rice. The *Rabi* crop is also very promising and steps will be taken to maximise procurement. At the same time, I would like to make it clear that, if necessary, Government will not hesitate to import wheat and other essential articles to counter the pressure on prices. Maintaining price stability is high on the agenda of this Government.

Apart from supply side management, we have to adopt prudent fiscal and monetary policies that will stabilise prices. For the year 1997-98, Government and the RBI will act in concert towards a further reduction in the fiscal deficit, containment of the growth of money supply within 16% and adoption of a liberal import policy for essential commodities. Our goal is to break inflationary expectations and reduce the rate of inflation from the present level.

Our fight against poverty is not a game in populism. It is a battle at the grassroots level. It is a battle in which, I believe, all of us ought to be on the side of the poor. Those who are poor are those who do not have land or water or education or opportunity. Our programmes, therefore, revolve around the concerns of the poor. For example

* The flagship programme of the Prime Minister is the Basic Minimum Services plan. As against Rs. 2466 crore in the current year, I propose to provide Rs. 3300 crore for this programme in 1997-98. This will include Rs. 330 crore for slum development.
* The provision for the Accelerated Irrigation Benefit Programme is being enhanced from Rs. 900 crore to Rs. 1300 crore in 1997-98.
* The Ganga Kalyan Yojana is intended to support farmers to take up schemes for groundwater and surface water utilisation through a mixture of subsidy, maintenance support and credit arrangements. Rs. 200 crore is being provided in 1997-98.
* On August 15,1997, the Prime Minister will inaugurate the Kasturba Gandhi Shiksha Yojana, a programme to establish special schools for girl children in the districts which have a particularly low female literacy rate. I have placed Rs. 250 crore in the Budget for 1997-98.
* All current self-employment schemes, addressed to different target groups such as PMRY, IRDP, NRY etc., will be re-orientated to provide skill-based training, entrepreneurship development and subsidy-linked bank credit to I million youth to empower them to start viable small businesses.

Our Government believes that poverty alleviation programmes are important instruments in the fight against poverty. While maintaining the large outlays for these programmes, it is necessary to rationalise their number and make them more focussed and effective. The Planning Commission is now engaged in a comprehensive exercise and the revised portfolio of poverty alleviation programmes will be implemented with effect from April 1,1997.

Agriculture is the lifeblood of our economy. The CMP calls for a doubling of the flow of credit to agriculture and agro-industries within five years. In 1996-97, the first year of this Government, it is estimated that credit flow to agriculture will increase from about Rs. 22,000 crore to nearly Rs. 28,600 crore-an increase of an unprecedented Rs. 6,600 crore.

Hon'ble Members will be glad to know that the Rural Infrastructure Development Fund (RIDF) has proved to be popular and successful. Under RIDF-I, Rs. 2,000 crore was sanctioned for 4,530 projects. By March 1997, disbursements will amount to about Rs. 1,400 crore. Under RIDF-II 8,387 projects worth over Rs. 2,500 crore have been sanctioned. RIDF-III will be launched in 1997-98 and another Rs. 2500 crore will be provided. I urge the States to continue to make the best use of these funds.

The policy of recapitalising the Regional Rural Banks (RRBs) will continue next year. I am providing Rs. 270 crore for this purpsose. I also intend to allow a greater role to sponsor banks in the ownership and management of RRBs.

NABARD is being strengthened. NABARD has been given Rs. 500 crore as advance additional share capital- Rs. 100 crore by Government and Rs. 400 crore by RBI-in the current year. The share capital will be augmented by a similar allocation in 1997-98. I am also glad to announce that, as promised last year, NABARD has promoted and incorporated this month state level agricultural development finance institutions in three States as joint ventures. More will be incorporated next year.

The CMP said that all controls on agricultural products will be reviewed and, wherever found unnecessary, will be abolished. Only some regulations are by the Central Governemnt, and a beginning is being made by abolishing a few. The Rice Milling Industries (Regulation) Act, 1958 and the Ginning and Pressing Factories Act, 1925 will be repealed. Licensing, price control and requisitioning under the Cold Storage Order, 1964 will removed. The Edible Oils and Edible Oil Seeds Storage Control Order, 1977 and the Cotton Control Order, 1986 will be invoked only in well-defined emergency situations. Domestic futures trading would be resumed in respect of ginned and baled cotton, baled raw jute and jute goods. An international Castor Oil Futures Exchange will be set up. I urge State governments to follow this lead and abolish as many controls as possible.

As Hon'ble Members are aware, Government has recently enhanced the investment ceiling for plant and machinery of small scale industries (SSIs) to Rs. 3 crore and of tiny units to Rs. 25 lakhs. In order to ensure that credit is available to all segments of the now-enlarged SSI sector, the RBI is issuing instructions that out of the funds normally available to the SSI sector, 40% will be reserved for units with investment in plant and machinery upto Rs. 5 lakhs, 20% for units with investment between Rs. 5 lakhs and Rs. 25 lakhs and the remaining 40% for other SSI units.

Government also announced recently that it will examine carefully the other recommendations of the Abid Hussain Committee on the SSI sector. With a view to reduce wastage in agricultural commodities, improve quality and hygiene and promote exports, the Advisory Committee on reservation and dereservation has recommended that 14 items, now reserved for manufacture in the SSI sector, may be dereserved. 822 items would still remain reserved for production in the SSI sector. Government has accepted these recommendations. The derserved items include rice milling, dal milling, poultry feed, vinegar, synthetic syrups, biscuits, ice cream, a variety of automobile parts and corrugated paper and boards. It is expected that new investment and improved technology will flow into these business.

A constraint on adding to the housing stock of the country is the Urban Land (Ceiling and Regulation) Act, 1976. It is the intention of the Government to move a Bill for amending the Act in this session of Parliament.

Indira Awas Yojana was launched to build houses for the poor in rural areas. Housing finance companies provide credit, but the bulk of such credit flows into the urban and semi-uran areas. There are some rural housing credit programmes but they lend meagre amounts upto Rs. 10,000. There is virtually no source of credit for the farmer who wishes to build a modest house on his freehold land or to improve or add to his old dwelling. This gap must be filled. In consultation with the National Housing Bank (NHB) and others, I have worked out a plan. Loans, upto Rs. 2 lakhs, will be given for building houses on freehold land in rural areas at normal rates of interest, subject to the borrower putting in one-third of the value of the house. NHB has been requested to prepare a scheme in which other organisations will also participate. The Prime Minister will launch the scheme on August 15, 1997 and it is our goal to sanction 50,000 loans in the first year.

The Central Board of Trustees of the Employees' Provident Fund (EPF) has made specific proposals to make the EPF schemes financially more attractive. Government has also looked at the matter from the point of view of augmenting savings. I am happy to announce the following decisions :

* The rate of contribution in all industries and establishments will be increased from 8.33% to 10% for both employers and employees with effect from March 1,1997.

- In the scheduled industries where the rate of contribution is now 10%, the Act will be amended to make the rate 12% for both employers and employees.
- The requirement of keeping 20% of incremental PF amounts in the Special Deposit Scheme (SDS) will be withdrawn with effect from April 1,1997 and the Board of Trustees will be free to invest this portion of the funds in any of the other three kinds of permitted securities.

In 1995, the Central Government enhanced the ceiling on the amount of gratuity payable from Rs. 1 lakh to Rs. 2.5 lakh for Central Government employees. I am now pleased to announce that the benefit will be extended to all employees covered under the Payment of Gratuity Act, 1972, which will be amended for this purpose.

The CMP promised that "the United Front Government will identity public sector companies that have comparative advantages and will support them in their drive to become global giants." To begin with, nine well-performing public sector enterprises, the *Navaratnas*, have been identified. These are IOC, ONGC, HPCL, BPCL, IPCL, VSNL, BHEL, SAIL and NTPC. The Industry Minister will shortly unveil a package of measures that will help them achieve this objective. He will also make a full statement on managerial and commercial autonomy to all PSUs.

In the meanwhile, Government has decided to delegate more monetary powers to the Boards of profit-making enterprises. For these PSUs, the existing limits for capital expenditure that can be incurred without the prior approval of the Government is being doubled straight-away, and where the gross block is over Rs. 500 crore, the limit will be Rs. 100 crore.

The Disinvestment Commission was constituted in August, 1996 and 40 PSUs were referred to the Commission for advice. The Commission has submitted its first report. It has made specific recommendations in respect of three companies. We intend to proceed with the disinvestment in these companies along the lines suggested by the Commission. While the Commission will make further reports every month, a second batch of PSUs has been referred to the Commission. As the Commission has observed "The essence of a long-term disinvestment strategy should be not only to enhance budgetary receipts, but also minimise budgetary support towards unprofitable units while ensuring their long-term viability and sustainable levels of employment in them." Government agrees with this view and I would appeal to Hon'ble Members to take a positive view of disinvestment.

The country's demand for petroleum products is growing at over 8% per annum, which is faster than the growth of domestic supply. We cannot choke this growth. At the same time, we must reduce our dependence on imported petroleum products. There is no real alternative to increasing the supply. Just 6 of the 26 basins that have potential for oil and gas in India have been explored, and that too only partially. The Minister of State for Petroleum and Natural Gas will be making a detailed statement on the new exploration and licensing policy (NELP) shortly. The highlights of the policy are the following :

- Companies, including ONGC and OIL, will be paid the international price of oil for new discoveries made under the NELP;
- Royalty payments will be fixed on an ad valorem basis instead of the present system of specific rates;
- Royalty payments for exploration in deep waters will be charged at half the rate for offshore areas for the first seven years after commencement of commercial production;
- Freedom for marketing crude oil and gas in the domestic market;
- Tax holiday for seven years after commencement of commercial production for blocks in the North-East region;
- ONGC and OIL will get the same duty concessions on import of capital goods under the NELP as private production sharing contracts;
- Cess levied under the Oil Industry Development Act, 1974 will be abolished for the new exploration blocks; and
- A separate petroleum tax code will be put in place as in other countries to facilitate new investments.

It is my fervent hope that Indian and foreign companies will respond positively to this package of measures.

In order to ensure that adequate domestic refining capacity is created, I propose to allow refineries to import capital goods during the Ninth Plan period at a concessional duty on par with the fertiliser sector. Domestic capital goods suppliers will also get deemed export status.

The Infrastructure Development Finance Company has been incorporated. Section 80IA of the Income Tax Act grants a five year tax holiday for certain infrastructure projects. Last month, I announced that telecommunication will qualify as infrastructure. I now propose to add Oil Exploration and Industrial Parks to this category.

I am also glad to announce that the vexed question of assignability of telecom licences has been resolved and that tripartite agreements are proposed to be entered into among the Department of Telecommunications, the licencee and the lenders.

As Commerce Minister, I proposed in the Exim Policy that supply of goods to oil, gasd and power projects, if the supplies are made under the procedure of international competitive bidding, should be given the benefits of 'deemed exports'. As Finance Minister, I am glad to accept this wholesome proposal. Details are being notified separately.

The National Highway Authority of India (NHAI) is now geared to implement the new policy on roads and highways. I propose to enhance budget support for NHAI to Rs. 500 crore which is a significant step up from Rs. 200 crore provided in the current year.

Foreign Institutional Investors (FIIs) continue to repose great confidence in India. Net FII investment in India is now over US$ 7 billion. During the course of this year I have expanded the opportunities for such investments. I propose to take one more step at the instance of Indian companies. The limit of aggregate investment in a company by FIIs, NRIs and NRI-OCBs is now 24%. I propose to allow companies to raise this limit to 30%, subject to the condition that the Board of Directors of the company approves the limit and the general body of the company passes a special resolution in this behalf.

Venture capital funds are important vehicles for stimulating investments in new ventures. Under the present guidelines they can invest upto 5% of their corpus in the equity of any single company. This is unduly restrictive. The limit is being increased to 20%.

Over 20 million Indians have invested their savings in the capital market. The establishment of the first Depository was an important step taken to bring the Indian capital market upto world standards and to protect the interests of the investors. SEBI was asked to suggest more measures. The committee appointed by me to draft a new Companies Bill has also made valuable suggestions. After considering these suggestions, I propose to accept five recommendations :

* The principle of buy-back of shares by companies subject to certain conditions will be introduced in the Companies Act;
* The provisions of Sections 370 and 372 of the Companies Act will be merged and an overall ceiling of 60% will be kept for intercorporate investment and loans;
* The Companies Act will be amended to provide for nomination facilitios for holders of securities;
* Companies raising funds from the capital market will be required to give an annual statement disclosing the end-use of such funds; and
* One time permission will be given to stockbrokers to corporatise their businesses without attracting tax on capital gains, which will be exempted.

I am of the firm view that markets will prosper when economic growth continues to be strong, the fiscal deficit is reduced, interest rates decline and investors are reassured that their interests are secure.

As we progress towards a more open economy with greater trade and investment linkages with the rest of the world, the regulations governing foreign exchange transactions also need to be modernised. It is generally acknowledged that the Foreign Exchange Regulation Act, 1973 needs to be replaced by a new law consistent with full current account convertibility and our objective of progressively liberalising capital account transactions. Hence, I propose to introduce, later this year, a Bill titled 'The Foreign Exchange Management Act'. An RBI-appointed group is expected to complete the drafting of the Bill shortly.

While FERA is being replaced, we will not let up in our effort to curb the laundering of ill-gotten money. A Bill dealing with money laundering is under preparation and I propose to introduce it during this session of Parliament.

A little while ago I made a reference to capital account convertibility. We are proud of our foreign exchange earners. They have been given the facility of the Export Earners Foreign Currency (EEFC) Account. At present, the total amount in these accounts is a modest Rs. 2000 crore. I propose to expand the scope of the account by allowing the following facilities:

* To open offices abroad and to meet the expenses thereof; and
* To make investments from the balance in the account in overseas joint ventures upto the limit of US$ 15 million, without reference to the RBI.

I also believe that the time has come for preparatory work towards capital account convertibility. This is a cherished goal. It is also a matter of great sensitivity. Hence, I shall not make any commitment. For the present, I am asking RBI to appoint a group of experts to lay out the road map towards capital account convertibility, prescribe the economic parameters which have to be achieved at each milestone and work out a detailed time table for achieving the goal. I believe the appointment of such a group will send a powerful signal to the world about our determination to join the ranks of frontline nations.

My last budget was viewed in certain quarters as science and technology-friendly. Flattery has its rewards, and I intend to strengthen my friendship with the scientific community. I propose to take the following initiatives :

* The scheme to match every additional commercial rupee earned by CSIR and ICAR laboratories, as well as the IITs, announced by me last year will continue on a permanent basis.
* The Technology Development Board, established to accelerate the commercialisation of indigenous technology, has identified 16 projects that the commercially viable in the fields of agriculture, health, chemicals and pharmaceuticals. In 1996-97, I provided Rs. 30 crore to the Technology Development Fund. I propose to increase the allocation in 1997-98 to Rs. 70 crore.

Tomorrow's technology is based on today's science. I am concerned that there is declining interest in the learning of sciences in schools and colleges. I hold the view that an MBA—even if he is from Harvard—is not a patch on a scientist. On the occasion of the 50th anniversary of our Independence, we will launch the "Swarnajayanti" fellowships. Outstanding scientists below the age of 45 will be assisted to attain and sustain world class levels in science. A sum of Rs. 50 crore in the Department of Education's budget will be used to create a corpus. The Minister of State for Science and Technology will announce the details of the scheme.

Closer linkages have to be developed between Indian industry and publicly-funded research laboratories. Hence, I propose to allow Government-promoted societies recognised by the Department of Scientific and Industrial Research and notified under the Income Tax Act to invest in the equity of private sector companies. There institutions will invest not money but their knowledge and know-how as their equity.

If there is one science that will dominate the 21st century, it is information technology. If there is one industry in which India can emerge as a world leader, it is information technology. However, for this potential to be realised, we need a completely new policy for manufacturing the marketing IT products. The Electronic Hardware Technology Park (EHTP) Scheme, presently in force, gives limited flexibility. There is an imperative need to increase production volumes and attract foreign direct investment. Accordingly, it has been decided that EHTP/EOU/EPZ units in electronic hardware may be permitted to sell one half of the value of their products, during any 12 month period, in the domestic market and export the other half. The sale in the domestic market will be on payment of excise duty equivalent to full customs duty, including the additional duty of customs. Details of the new unified manufacturing scheme will be incorporated in the new EXIM policy that will be effective from April 1,1997.

Hon'ble Members will recall that I had set up an expert group to draft a new Companies Bill and another expert committee to prepare a new Direct Taxes Bill. Both groups have done splendid work and have submitted their reports. Copies of the reports will be placed in the Parliament Library next week. They will also be distributed widely. A working draft of each Bill will also be circulated as soon as it is ready. It is my hope that there will be wide and informed debate on the two Bills. It is my intention to bring the new Companies Bill before this House in the monsoon session and the new Direct Taxes Bill in the winter session.

The CMP accords high priority to infrastructure. The India Infrastructure Report has been published and it now remains for us to implement the report. The critical need is funds, and that too long-term funds. That is why the CMP said, "There is a strong link between infrastructure development and financial sector reforms. Infrastructure needs long-term finances." Hon'ble Members are fully aware that long-term funds are in the Pension and the Insurance sectors.

Our foremost companies in the insurance sector are LIC and GIC. After a long interval of time, LIC and GIC have been given the full complement of Board members. We have also decided to grant substantial autonomy to LIC and GIC, including the power to make non-scheduled, non-consortium investments, to determine the terms and conditions of service of their employees and agents, to make regulations and some other powers. LIC and GIC will be further strengthened in due course.

Under the present laws, pension funds are, by an archaic definition, included in the business of life insurance. However, it is self-evident that pension and insurance are two different benefits and two different business. While life insurance is the monopoly of LIC, several pension funds have been rightly exempted and allowed to operate independently. In 1995, at the instance of my distinguished predecessor, UTI floated the UTI Retirement Benefit Plan. It has attracted about 80,000 subscribers. I propose to allow UTI to expand the above plan into a ful-fledged pension fund. UTI has made a request to Government in this regard; LIC has no objection; and hence it is appropriate to amend the laws.

LIC has also requested Government to permit it to promote joint ventures in the pension business. There is no reason to deny LIC this right. The proposed amendment will permit LIC to enter into such joint ventures. After the amendments, UTIs pension fund will compete with LIC's pension schemes.

Similarly, the penetration of health insurance cover in our country is distressingly low. Just about 20 lakh Indians out of 95 crore have some kind of health cover. The Jan Arogya scheme, launched barely six months ago, has already attracted 4 lakh policy holders. Clearly, there is a demand for health insurance products. GIC has frankly admitted that its Mediclaim policy has not been successful and that it would like to promote joint ventures in this line of business. GIC is also confident of facing competition in the health insurance business. Accordingly, I propose to move necessary amendments to enable GIC to float joint ventures and also to allow entry to selected Indian players in the health insurance sector.

What I have outlined is very modest opening of one segment of the insurance sector. LIC will continue to enjoy a monopoly in the life insurance business and GIC will continue to enjoy a monopoly in the non-life, non-health insurance business. I would also like to make it clear that only a few Indian companies, that is Indian-controlled and with majority Indian ownership, will be permitted to enter the health insurance business. Comprehensive regulations will be made and enforced by the Insurance Regulatory Authority (IRA) for all the service providers in the insurance industry. They would also have to meet the prudential, investment and social norms laid down by the IRA

Hon'ble Members will recall that in my last Budget speech I had promised to present concrete proposals in this Budget to phase out the system or *ad hoc* treasury bills by 1997-98, a decision first announced by my distinguished predecessor I am glad to announce that the Government and the RBI have worked out the specific measures in this regard.

The system of *ad hoc* treasury bills to finance the budget deficit will be discontinued with effect from April 1, 1997. A scheme of ways and means advances (WMA) by the RBI to the Central Government is being introduced to accommodate temporary mismatches in the Government's receipts and payments. This will not be a permanent source of financing the Government's deficit. Besides ways and means advances, RBI's support will be available for the Government's borrowing programme. Details of the scheme are being separately announced by the RBI.

What I am effecting today is a bold and radical change which will strengthen fiscal discipline and provide greater autonomy to the RBI in the conduct of monetary policy. With the discontinuance of *ad hoc*, treasury bills and tap treasury bills, and the introduction of ways and means advances, the concept of Budget deficit, as currently defined, will lose its relevance either as an indicator of short-term requirement of funds by the Government or the extent of monetisation. Therefore, it is proposed to discontinue the practice of showing the 'Budget deficit'; instead Gross Fiscal Deficit (GFD) would become the key indicator of defict. The extent of RBI support to the Central Government's borrowing programme will be shown as "Monetised deficit" in the Budget documents.

Several countries have used a variety of indexed bonds to provide investors an effective hedge against inflation and to enhance the credibility of anti-inflationary policies followed by the Government. I believe the time is ripe for India to introduce such an instrument. I, therefore, propose to introduce a capital indexed bond where the repayment of the principal amounts will be indexed to inflation.

I have already placed in the House a discussion paper on the recommendations of the Tenth Finance Commission (TFC) on the formula to be adopted for devolution of resources from the Centre to the States. The views of the States have been received. The Standing Committee of the Inter-State Council has also considered the matter. Based on these consultations, I propose to accept the recommendation of the TFC to form a single, divisible pool of taxes to be shared between the Centre and the States. To begin with, we shall adopt the proportion of 29% recommended by the TFC. This will be an improvement on the present share of the States. However, we are willing to discuss the matter further when we bring the Constitution Amendment Bill to give effect to the decision. We affirm our belief that the polity of India requires a strong Centre and strong States and, if I many add, strong local bodies.

I shall now briefly go over the Revised Estimates for 1996-97.

The Budget Estimates for 1996-97 had placed the total expenditure at Rs. 204,660 crore. This is now expected to come down to Rs. 202,298 crore. This is the net effect of *decrease* of Rs. 2571 crore in the non-Plan expenditure and an *increase* of Rs. 209 crore in the Plan expenditure.

Non-Plan expenditure in the current year is placed at Rs. 147,404 crore. This represents a decrease of Rs. 2571 crore over the Budget estimates basically on account of saving of Rs. 3000 crore in the provision made for the likely impact of the recommendations of the Fifth Pay Commission. On the other hand, we have not got Rs. 4500 crore of anticipated receipts from disinvestment. Despite these constraints, I made an additional provision of Rs. 1700 crore for Defence during the year. On balance, therefore, I believe we have managed our receipts and expenditure within the Budget.

My greatest satisfaction is however on the Plan side. We saved a considerable amount in the Plan expenditure of the Central Government. It was, therefore, possible for me to provide an additional Rs. 2500 crore to the States as Additional Central Assistance for externally-aided projects. I also provided Rs. 663 crore to Jammu and Kashmir during the year. As a result, total Plan expenditure has *increased* by Rs. 209 crore. If I have robbed Peter, the Central Government, it is only to pay Paul, the States Governments.

In October, 1996, the Prime Minister announced a package of initiatives for the North-East, including adequate funding for on-going projects, which will require over Rs. 6,000 crore. Government will allocate funds for these projects in the Ninth Plan. The Numaligarh Refinery is making good progress. I have provided Rs. 100 crore for the project in the RE for 1996-97 and over the next two years adequate funds will be fund to ensure its completion on schedule.

The overall gross tax revenue which was estimated at Rs. 132,145 crore in the Budget estimates will be marginally higher by Rs. 174 crore, although the net tax revenue of the Centre would be marginally less by about Rs. 100 crore from the Budget estimate of Rs. 97,310 crore.

Taking into account the Revised Estimates of revenues and expenditure, the Revenue Deficit has come down from the Budget estimate of 2.5% of GDP to 2.3% of GDP. There is no change in the Budget estimate of the fiscal deficit which would remain at 5% of GDP. I am profoundly sorry to disappoint my well-meaning critics.

What will we do without our critics? As Saint Tiruvalluvar said :

"Indipparai 1llatha Emara Mannan
Keduppar Ilanum Kedum"

(Behold the King who reposeth not on those who can rebuke him/He will perish even when he hath no enemies.)

I now turn to the Budget Estimates for 1997-98.

The total expenditure is estimated at Rs. 232,481 crore of which Rs. 62,852 crore has been provided as budget support for Central, States and UT Plans and the balance Rs. 169,629 crore is for non-Plan expenditure. Hon'ble Members will be pleased to note that the increase in budget support for the Plan will be Rs. 7958 crore over RE 1996-97, which is the largest increase ever.

Budgetary support to the Central Plan is being concentrated on rural development, employment and poverty alleviation programmes and in the human resource development areas. For 1997-98, the outlay for the Ministry of Rural Areas and Employment is being increased to Rs. 9096 crore, an increase of Rs. 1271 crore over the RE for 1996-97. In 1997-98, Jawahar Rozgar Yojana is estimated to generate about 520 million mandays of employment. About 90,000 habitations will be provided safe drinking water under the Accelerated Rural Water Supply Scheme.

The outlay for the Social Services sector is being substantially enhanced from Rs. 11,785 crore in RE 1996-97 to Rs. 15,707 crore in BE 1997-98. Significant increases are under Urban Development (Rs. 775 crore), General Education (Rs. 1189 crore), Technical Education (Rs. 132 crore), Family Welfare (Rs. 282 crore) and Water Supply and Sanitation (Rs. 312 crore).

The Science and Technology sector is being provided Rs. 1870 crore as against Rs. 1584 crore in RE 1996-97.

The Maulana Azad Education Foundation is being given Rs. 40 crore. The National Minorities Development and Finance Corporation is being provided Rs. 41 crore.

Rs. 96 crore is being allocated to the National SC and ST Finance and Development Corporation. For the welfare of the handicapped, I am providing Rs. 90 crore and for the National Handicapped Finance and Development Corporation I am giving Rs. 28 crore. The National Backward clases Finance and Development Corporation is being given Rs. 47 crore.

Total non-Plan expenditure in 1997-98 is estimated to be Rs. 169,629 crore. The interest payments are estimated to be Rs. 68,000 crore.

Fertiliser subsidy on indigenous fertilisers is being enhanced to Rs. 5240 crore in 1997-98 from Rs. 4743 crore in RE 1996-97. In addition, subsidy on imported fertilisers is being increased to Rs. 1950 crore in 1997-98, as against Rs. 1350 crore in RE 1996-97. In addition the subsidy on sale of decontrolled fertilisers is being enhanced to Rs. 2000 crore in 1997-98 from Rs. 1674 crore in RE 1996-97.

An amount of Rs. 7500 crore is being earmarked for foodgrains and sugar subsidies in 1997-98 representing an increase of Rs. 1434 crore over Re 1996-97. When the dual card system under the Targeted PDS takes effect throughout the country, if more funds are required, I shall provide the same. I may not wear my heart on my sleeve, but my heart is in the right place.

I would like to make a special mention of the outlay for Defence. Rs. 35,620 crore is being provided which includes Rs. 3620 crore for implementing the recommendations of the Fifth Pay Commission. In the past, revenue expenditure of the Defence Services had been routinely underprovided. This year, I have requested the Ministry of Defence to fully provide for the revenue expenditure. On the capital account, for the present, I am providing Rs. 8907 crore which is Rs. 402 crore more than RE 1996-97, with a clear promise—and I make that solemn undertaking here—that any additional requirement of Defence for capital expenditure will be adequately provided for during the course of the year. Mr Speaker, Sir, my head is also in the right place.

A provision of Rs. 4205 crore is being made for implementing the recommendations of the Fifth Pay Commission for employees other than Defence and Railway personnel for whom separate provisions have been made in this Budget and in the Railway Budget. The recommendations of the Pay Commission are being processed expeditiously according to established procedure.

The non-Plan provision for assistance to the public sector units has been on the increase. In 1996-97, we approved revival packages for Bharat Yantra Nigam, Bharat Bhari Udyog Nigam, Hindustan Paper Corporation, Scooters India, HEC and Bharat Refractories. For 1997-98, I am providing Rs. 1107 crore as non-Plan loans, and I expect that we will approve more restructuring proposals during the course of next year.

I now turn to the revenue receipts.

Gross tax revenues at the existing rates of taxation are estimated at Rs. 153,347 crore. After providing Rs. 40,254 crore as the States' share of taxes, the Centre's net tax revenue will be Rs. 113,094 crore. Non-tax revenues have also shown healthy buoyancy. The receipts under the head are expected to be Rs. 39,749 crore in 1997-98. I have taken credit for Rs. 3681 crore as license fee from private operators of cellular and basic telecom services.

The net revenue receipts for the Centre, including non-tax receipts, are expected to increase from Rs. 130,783 crore in RE 1996-97 to Rs. 152,843 crore in 1997-98.

In the area of capital receipts, market borrowings are placed at Rs. 34,425 crore. Net external assistance will be Rs. 2435 crore. I am also taking credit for receipts from disinvestment of equity in public sector enterprises of Rs. 4800 crore. Total receipts at the existing rates of taxation are estimated at Rs. 231,876 crore.

I shall come to the gross fiscal deficit in Part B of my speech.

Let me preface my tax proposals by saying that I have set for myself the goal of augumenting the net tax revenues of the Central Government by a healthy 15-16%; I believe that through the measures proposed by me we will attain this goal.

I shall begin with my direct tax proposals.

The CMP affirms that "the United Front Government will continue with tax reforms and take other steps to augment revenues legitimately due to the Government and to curb tax evasion." I believe that a good tax policy should aim at moderate rates, a wider tax base, simpler procedural rules and securing greater compliance. Households and the corporate sector are our best savers; we must reward them. From another point of view, however, the tax to GDP ratio for the Central Government, which currently is only around 10.5 per cent, needs to increase to sustain the needs of public investment and social sector expenditure. Moreover, the proportion of direct taxes should increase in the total tax revenues of the Government.

It is inexplicable that in a country of over 900 million people, only 12 million people are assessed to income-tax and, what is worse, only about 12,000 assessees are in the tax bracket of income above Rs. 10 lakhs. I intend to make a beginning in widening the tax net by an amendment of Section 139 of the Income-tax Act. My proposal is that residents of large metropolitan cities who satisfy any two of the following economic criteria, namely, ownership of a four-wheel vehicle, occupation of immovable property meeting certain prescribed criteria, ownership of a telephone and foreign travel in the previous year, should normally fall within the taxable slabs and should voluntarily file their tax returns. I appeal to them to cooperate in our endeavour. If anyone fails to do so, the Income-tax Department would serve upon him a notice obliging him to file his return so that taxes, if due from him, could be collected. Those who live in apparent comfort must have the satisfaction of finding their names in the records of the Income-tax Department.

With the same objective, I also propose to introduce a new Estimated Income Scheme for retail traders. The scheme will apply to persons engaged in the business of retail trade of any goods or merchandise having a total turnover of less than Rs. 40 lakhs. A trader with a turnover of less than Rs. 8 lakhs will stand exempted, given the present exemption limit. The income of the trader will be estimated at 5 per cent of the total turnover. Assessees who file a return showing income less than 5% of turnover will be required to maintain books of account and get their accounts audited.

With the aforesaid steps, the existing presumptive scheme under section 115K, popularly known as the Rs. 1400 scheme, which has not yielded the desired results, is being discontinued.

Members may recall that, last July, I had reduced the income-tax rate for the first income slab from 20 per cent to 15 per cent. It was, I believe, a step in the right direction. If we look at comparative income-tax slabs in other developing Asian countries, it will be evident that tax rates in India are still high and constitute an important reason for tax evasion. It is now widely accepted that moderate rates of taxation encourage savings, foster growth and motivate voluntary compliance. I have received wise counsel from many Hon'ble Members. I have, therefore, decided to lower the rates of personal income-tax across-the-board in a significant manner. The current rates of 15, 30 and 40 per cent are being replaced by the new rates of 10, 20 and 30 per cent. The rate will be 10 per cent in the first slab of Rs. 40,000 to Rs. 60,000, 20 per cent in the slab of Rs. 60,000 to Rs. 150,000 and 30 per cent for all incomes above Rs. 150,000.

18.00 hrs.

The new tax rates are so moderate that there is now little justification for increasing the exemption limit. However, salaried persons deserve some relief. I, therefore, propose to increase the limit of standard deduction to Rs. 20,000, which will, henceforth, apply uniformly to all salaried taxpayers. An employee drawing a salary of Rs. 75,000 per annum and contributing 10 per cent thereof to the provident fund would have to pay no tax at all.

During the last meeting of the National Development Council, a suggestion was made that the Government should think of a scheme to harness 'black money' for productive purposes. I have balanced the economic and the ethical arguments. I have considered various options. And I believe that the time is opportune to introduce a Voluntary Disclosure Scheme. This would be a simple scheme where, irrespective of the year or the nature or the source of the funds, the amount disclosed, either as cash, securities or assets, whether held in India or abroad, would be charged at the revised highest rate of tax. Interest and penalty will be waived. Immunity would be granted from any action under the Income-tax, Wealth tax and the Foreign Exchange Regulation Acts. The date of commencement of the scheme will be notified separately, but the scheme will end on December 31, 1997. Of the total resources which can be secured under the Scheme, a substantial part - 77.5 per cent - will accrue to the State Governments. I hope they will cooperate in our endeavour in attracting people to avail of this new opportunity being offered to those who have shied away from paying legitimate taxes in the past. The share which becomes available to the Central Government will go entirely towards financing the Basic Minimum Services programme an infrastructure needs.

I also propose to give some further relief to our senior citizens. I propose to increase the rate of rebate available to them to 100 per cent, from the existing 40 per cent, subject to a limit of Rs. 10,000. Thus, a senior citizen having an income upto Rs. 1 lakh will not have to pay any tax. Senior citizens with higher incomes will also enjoy this exemption limit but will be taxed above the threshold level of Rs. 1 lakh.

Responding to demands from Chief Ministers, I propose to amend section 80G of the Income-tax Act to provide for 100 per cent deduction in respect of donations made to the Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund.

Turning to corporate taxes, I had in my last budget reduced the rate of surcharge from 15 per cent to 7.5 per cent and had expressed the hope that I would take a similar step in my next budget. I propose to abolish the balance surcharge on companies.

Corporates should be encouraged to undertake new investments. Hence, I propose to reduce the tax rate applicable to both domestic and foreign companies. Here again I have received wise coanselling. The rate for domestic companies will now be 35 per cent and for foreign companies 48 per cent. The reduction in the corporate rates, apart from better compliance, should impart an added momentum to the growth process, create multiplier beneficial effects all around and also attract greater foreign investment.

There has also been a demand from the corporate sector that the tax rate of 30 per cent on royalty and technical services fees payable to foreign companies is too high and acts as a hindrance to the transfer of technology. I, therefore, propose to reduce this rate to 20 per cent.

I have received requests from non-resident Indians that the capital gains tax rate in their case arising on transfer of securities should be at par with the rate applicable in the case of FIIs. I see merit in their demand and, accordingly, propose that the rate be reduced from the existing 20 per cent to 10 per cent.

The Minimum Alternate Tax (MAT) on companies, which was introduced last year, has been the subject of extensive debate. A large number of representtions have been received to repeal—or review—the provisions. The economic rationale for MAT has, I am afraid, not been altered and I am unable to accept the request that the provision introduced last year be totally withdrawn. However, there is a case for a review of the manner in which the tax is charged and collected. I, therefore, propose to make the following changes in the provisions of MAT :-

(i) Export profits will be exempt from MAT and will be eligible for full deduction under section 80HHC.

(ii) A system of credit will be introduced in respect of the payment of MAT. When a company pays MAT, the tax credit earned by it shall be allowed to be carried forward for a period of 5 assessment years and, in the assessment year when regular tax becomes payable, the difference between the regular tax and tax computed under MAT for that year will be set off against the MAT credit available. Thus, at the proposed new rate of corporate tax, every company including the zero tax companies, would have to pay income-tax of not less than 10.5 per cent on its books profits.

Another area of vigorous debate over many years relates to the issue of tax on dividends. I wish to end this debate. Hence, I propose to abolish tax on dividends in the hands of the shareholder.

Some companies distribute exorbitant dividends. Ideally, they should retain the bulk of their profits and plough them into fresh investments. I intend to reward companies who invest in future growth. Hence, I propose to levy a tax on distributed profits at the moderate rate of 10 per cent on the amount so distributed. This tax shall be an incidence on the company and shall not be passed on to the shareholder.

In order to encourage investments in Government securities, called gilts, I propose to abolish Tax Deducted at Source (TDS) on such securities. I also propose to include gilts for the higher deduction limit of Rs. 15,000 under section 80L of the Income-tax Act as is available in respect of income received from the units of UTI or approved mutual funds.

I have already announced that Telecommunication will qualify as an infrastructure. I, therefore, propose to extend the following benefits to this sector :-

(i) Tax holiday under section 80 IA;

(ii) Amortisation of licence fees; and

(iii) Inclusion of investments made in debentures and equity shares of a public company providing telecommunication services for the purposes of tax rebate under section 88.

In order to encourage the development of tourism infrastructure, I propose to give a deduction of 50 per cent of the profits in respect of new hotels which are located in a hilly area or a rural area or a place of pilgrimage or a specified place of tourist importance. These hotels will also be exempted from the levy of expenditure tax. In respect of hotels located in other places, excluding the four metropolitan cities, the deduction shall be only 30 per cent of the profits.

Taxing financial intermediation goes contrary to the canons of sound public finance. Today, an interest-tax at the rate of 3 per cent is levied on the interest income of lending institutions, including banks and NBFCs. I propose to reduce the levy to 2 per cent and I hope to eliminate this levy progressively. This will help to keep down the cost of borrowing.

As a measure of simplification, I propose to amend Section 37 of the Income-tax Act to provide for the removal of artificial disallowances on account of advertisement, travelling, hotel expenses, entertainment expenses etc. incurred for legitimate business purposes.

I have also decided to eliminate a number of exemptions which continue to remain on the statute book and have since lost their relevance or rationale. These include exemptions and deductions under section 10 (15A), 10 (26AA), 80GG and 80JJ.

Now, I turn to my indirect tax proposals.

In relation to indirect taxes the CMP has stipulated: "The progress towards the goal of bringing India's tariffs in acord with world levels will be measured and calibrated."

On more than one occasion, I have stated that we would achieve the average level of tariffs prevalent in ASEAN countries by the turn of century. This will give time to Indian industry to adjust to these chages. This year's proposals should be seen in this background.

I propose to reduce the peak rate of customs duty from 50% to 40%.

High levels of customs duties on capital goods are inconsistent with our policy of attracting the bet technology. Greenfield investments in large projects should be globally competitive. I have tried to harmonise the needs of Indian industry with the requirements of the capital goods sector. I, therefore, propose a modest reduction in duty on capital goods from 25% to 20%. This reduced rate of 20% will also apply to project imports. Over the next two to three years these rates would need to be further adjusted to conform to levels prevalent in other developing Asian countries.

I also propose to exempt plans, designs and drawings from the levy of customs duty.

The customs duty on several inputs for the steel industry is being reduced. I propose to reduce the duty on coking coal (of ash content below 12%) from 5% to 3% and on coking coal of higher ash content, as well as coke, from 20% to 10%. I also propose to reduce the duty on nickel from 20% to 10%, on ferro alloys from 25% to 20% and on re-rollable steel scrap from 30% to 20%. All these measures should benefit the steel industry to reduce its cost of production.

Iron and steel products at present generally attract customs duty at 30%. I do not propose to make any major changes in the duty structure this year. However, I propose to reduce the duty on Cold Rolled Coils of iron and steel from 30% to 25% to help the engineering industry. I further propose to reduce the duty on ships brought for breaking from 10% to 5% and on pig iron from 20% to 10%.

I propose to reduce the duty on non-coking coal from 20% to 10%. This will help the power sector.

Chemicals constitute vital inputs for several down-stream industries including the small scale sector. I propose to reduce the duty on organic and inorganic chemicals from 40% to 30%. I also propose to make the following reductions on certain essential chemicals :

* On linear alkylbenzene, from 30% to 20%.

* On methanol, from 30% to 20%.
* On naphthalene, from 30% 20%.
* On phenol, from 30% to 25%.
* On catalysts, from 30% to 25%.

I also propose to reduce the customs duty on dyes, pigments, paints and varnishes, glues, enzymes and modified starches from 40% to 30%. These reductions will significantly benefit our textile industry.

Mr. Speaker, Sir, the scheduled dismantling of quantitative restrictions under the Multi Fibre Agreement will expose all textile exporting countries to stiff competition. The Ministry of Textiles have created a "Technology Upgradation Fund" for both the textile and jute industries to enhance the competitive efficiency of these sectors. Our textile industry has, therefore, to upgrade its technologies in the shortest possible time. Last year, I had reduced the customs duty on several kinds of textile machinery to 10%. In order to improve the quality of our garments for exports, this year I propose to add some more processing machines to this category. However, to mitigate any adverse impact on domestic manufacturers, I have decided to allow them to import the components and parts of these machinery at a concessional duty of 10%.

As a relief to the woollen textile industry, I propose to reduce the import duty on apparel grade wool from 25% to 20%, on wool waste from 30% to 20% and on woollen and synthetic rags from 30% to 25%. On flax fibre, I propose to reduce the duty from 30% to 20%.

In order to conserve our forest resources, I propose to fully exempt wood logs, fuel wood, wood chips, etc. from customs duty.

The spread of "Information Technology" has radically altered conventional wisdom on growth strategies. I propose several measures to encourage this industry and to reduce costs. These include :

* Full exemption to computer software.
* Reduction of duty on computer parts, other than populated printed circuit boards, from 20% to 10%.
* Reduction of duty on cartridge tape drive and digital video disc drive from 20% to 10%.
* Reduction of duty on populated printed circuit boards from 30% to 20%.
* Reduction of duty on integrated circuits from 20% to 10%.
* Reduction of duty on colour monitor tubes from 20% to 10%.
* Reduction of duty on colour picture tubes from 35% to 30%.
* Reduction of duty on parts of cellular telephones and pagers from 30% to 20%.
* Reduction of duty on telecom equipment from 40% to 30% and on their parts from 30% to 20%.

Ham operators are presently eligible to import specified equipment upto a value of Rs. 50,000 at a concessional rate of duty. I propose to raise this limit to Rs. 75,000.

I propose to reduce the duty on watch parts and movements from 50% to 25% and on watch cases of base metals from 50% to 30%. I also propose to reduce duty on horological materials from 20% to 10%. This will help our watch industry to further enhance their quality.

We are all concerned about the menace of growing pollution. In order to help reduce the cost of CNG kits, I have decided to reduce the customs duty on such kits and their parts from 10% to a modest 5%. Similarly, I propose to reduce the customs duty sharply on catalytic converters and their parts to 5% from the existing rate of 25%.

To improve the quality of medical care, I propose to reduce the import duty on medical equipment from 30% to 20%; on linear accelerators of 15 MeV and above used for cancer treatment from 10% to 0%; and on ophthalmic blanks for making spectacle lenses from 50% to 20%.

To promote tourism, I propose to reduce the import duty on specified equipment required for hotels from 35% to 25% and on specified speciality food items used by ofreign tourists from 50% to 25%.

I also propose to give some relief to the film and photographic industry by reducing the import duty on cine films and other photographic films from 30% to 25% and on parts of cameras from 50% to 25%.

I propose to reduce the customs duty on baggage from 60% to 50%.

I now come to my proposals on central excise.

Out Central excise structure is far too complex. Till some time ago, we had a multiplicity of rates, innumerable end-use exemptions and other distortions. Considerable simplification has taken place. Last July, I promised that within three years we shall have a four rate tax structure. I find that, in the first instance, it is necessary to reduce the dispersion in excise rates. I believe that we can eventually gravitate towards a mean rate around 18 per cent. With this objective in view, I have introduced three new rates, namely, 8%, 13% and 18%. In the process I have done away with the rates of 20% and 10% (except in the case of some petroleum products). In the interest of revenue, I have perforce to continue, for the time being, the rate of 15% which will apply to metals and a few other commodities.

However, the excise duty structure is still punctuated with many exemptions. All commodities, with some unavoidable exceptions, should be subject to excise duty at a minimum rate. I propose to undertake this exercise in the next year's budget.

Cotton yarn will continue to bear an excise duty of 5% only.

I propose to withdraw the exemption in a few cases like jams, jellies, sauces and soups where I propose to impose a nominal duty of 8%. Similarly, I propose to levy a duty of 8% on pens and ball point pens exceeding a value of Rs. 100 per piece and on non-power sun glasses. However, writing ink will be free from excise duty.

On a number of items of mass consumption like biscuits, sugar confectinery, laundry soap, tooth paste, tooth powder, kitchen and tableware of glass, and clocks and watches of a value upto Rs. 600 per piece, I propose to reduce the excise duty from 10% to 8%. The rate of 13% would be applied for watches and clocks above Rs. 600 per piece and other items like machinery and parts, tyres and tubes of two-wheeled motor vehicles, fluorescent tubes, and computers and parts thereof. The reduced rate of 13% will also apply to X-ray films, sanitary towels, napkins for babies and similar sanitary articles.

In respect of a large number of products, I propose to reduce the excise duty by percentage ranging from 2% to 7% and apply the mean rate. Accordingly, the mean rate of 18% would be applicable to many commodities including cocoa and cocoa preparations, instant coffee, sherbats, organic and inorganic chemicals, paints and dyes, electric wires and cables, toilet soaps, detergents, articles of leather, synthetic rubber, fibres and blended synthetic yarn, paper and paper board, plywood, travel goods and a host of consumer durables.

Agricultural and horticultural machinery are already fully exempt from excise duty. I propose to extend the exemption from excise duty to milking machines, dairy machinery and their parts.

In order to revive and give a thrust to the ailing jute industry, I propose to fully exempt all jute and jute products from excise duty.

At present, import of equipment and consumables by recognized research institutions is exempt from customs duty. In the interest of the domestic producer, I propose to allow the purchase of indigenous equipment and consumables by such institutions free of excise duty.

I also propose to reduce the duties of excise on certain items in order to bring about a more balanced excise structure on the whole. The changes proposed are :

* Reduction of duty on taxis and cars for the physically handicapped from 30% to 25%.
* Reduction of duty on polyester filament yarn from 40% to 30%.
* Reduction of duty on cosmetics and toilet preparations from 40% to 30%.
* Reduction of duty on glazed tiles from 30% to 25%.
* Reduction of duty on airconditioners from 40% to 30%.

Mr. Speaker, Sir, smoking in public is banned in Delhi. The fight against cancer and respiratory diseases continues. My contribution will be to increase the excise duty on non-filter cigarettes, not exceeding 60 mm in length, popularly called mini cigarettes, from Rs. 75 per thousand to Rs. 90 per thousand. I have also increased th excise duty on other categories of cigarettes. The increases range from Rs. 20 to Rs. 70 per thousand. There has been no increase in the excise duty on biris since 1993. I, therefore, propose to increase the excise duty on biris from Rs. 5 per thousand to Rs. 6 per thousand. The impact of this duty change on the retail price — I am told — would only be 2 paise for a bundle of 20 biris. As regards cigarettes, the increase would be 15 times more for every mini cigarette.

SHRI SONTOSH MOHAN DEV : Are you happy, Mr. Speaker?

SHRI P. CHIDAMBARAM : The small scale sector makes an important contribution to our overall production, provides gainful employment and also contributes to our export effort. It is the declared policy of this Government to free the small scale industry from the rigours of cumbersome procedures. In line with this objective, I have radically simplified the scheme of excise duty concessions for the small scale industries. I intend to continue the full exemption from duty on clearances upto Rs. 30 lakhs in a financial year. Thereafter, a small scale unit would be required to pay a flat rate of excise duty on clearances beyond Rs. 30 lakhs and upto Rs. 100 lakhs, if the small scale unit does not avail of any modvat credit on duty paid inputs. The flat rate of duty will be 3% ad-valorem on clearances between Rs. 30 to Rs. 50 lakhs and 5% ad-valorem on clearances between Rs. 50 to Rs. 100 lakhs. The flat rate will apply for all specified goods to which the small scale exemption scheme is applicable. In the revised scheme of exemption, the small scale units will not be required to maintain complicated records for availing modvat. They will also not be required to determine the classification of goods.

In order to curb avoidance from payment of duty, I have decided to exclude a few items like cotton yarn and texturised man-made yarn from the purview of the SSI exemption scheme.

Mr. Speaker, Sir, while it is our policy to moderate the tax rates and simplify procedures, the Government is equally committed to curb evasion of taxes. It is reported that in some sectors, like induction furnace, steel re-rolling mills etc., evasion of excise duty is substantial and the production is not being reported correctly. I propose to tackle this problem by introducing collection of excise duty on the basis of their production capacity. Suitable legislative changes in the excise law for enabling the implementation of the aforesaid change are under consideration. The details of the proposals would be submitted to this House in due course.

The everage citizen consumes a basket of commodities. As a result of my proposals — some increases and many reductions — I believe the basket will carry a significantly lower tax burden.

The services sector contributes nearly 40% to the GDP. 'Services' are products as much as 'manufactured goods'. Both must bear taxes. Hence, I propose to extend the service tax to cover a number of well known services like :

* Transportation of goods by road;
* Consulting engineers;
* Custom house, Steamer and Clearing and Forwarding agents;
* Air travel agents, tour operators and car rental agencies;
* Out-door caterers, pandal contractors and mandap keepers;
* Man-power recruitment agencies.

The proposals on service tax are estimated to yield a revenue of Rs. 1200 crore in a full year. However, for the financial year 1997-98, I am taking credit for Rs. 900 crore. I wish to inform the House that in order to improve our national highways, I propose to utilise the bulk of the proceeds realised from service tax on transportation of goods by road to augment the resources of the National Highway Authority.

On the conventional basis, my proposals relating to reduction in customs duties are estimated to result in a loss of Rs. 2625 crore in a financial year and, in the case of excise duties, my proposals are broadly revenue neutral. However, the buoyancy and the growth momentum that would be imparted to the economy would more than compensate for our losses computed through the conventional calculations.

I now have to say something on behalf of my colleague the Minister of Communications who has made a statement earlier today. A revision of tariffs for some postal services has become unavoidable. However, in doing so, we have kept in view the interest of the common man and the role of postal services in meeting wider social obligations. While there is no change for Registered Newspapers, the price for ordinary Post Card is being raised to 25 paise and printed Post Card to Rs. 1.50. The price for Inland Letter is also being raised from 75 paise to Re. 1 and for Envelope from Re. 1 to Rs. 2. Certain other changes are also being effected which is explained in the Memorandum circulated alongwith the budget documents. The changes will take effect from a date to be notified later. The proposed revisions are estimated to yield an additional revenue of Rs. 367 crore in a full year and Rs. 305 crore during 1997-98. This modest increase in necessary for the development of postal services and in partially bridging the deficit on the numerous services being provided by the Postal Department.

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

Mr. Speaker, Sir, as I come to the end of my labours, let me look at the final outcome. The revenue deficit in 1997-98 is placed at Rs. 30,266 crore or 2.1% of GDP. The fiscal deficit comes to Rs. 65,454 crore which is 4.5% of GDP. I have not wavered in my commitment to continue on the course of fiscal correction. With the support of this House, and as promised in the CMP, I hope to bring the fiscal deficit under 4% in the next budget.

Our goal must be to achieve rapid and broad-based growth which alone can ensure higher employment, better living standards and a humane and just society. The challenges that we face today are not unique to India. Other countries, including our friends in Asia, have faced similar challenges. Japan showed the way. Other Asian countries are surging ahead. And, finally, there is the example of China, powering its way to becoming the second largest economy in the world. These countries have shown that with courage, wisdom and pragmatism they can find their rightful places in the world.

Deng Xiao Peng, to whom we paid homage a few days ago, once said, "From our experience of these last few years, it is entirely possible for economic development to reach a new stage every few years. Development is the only hard truth." India's economy has also reached a new stage. Our beloved India is far stronger today than what she was six years ago.

I would appeal to this House, and to the Indian people, to heed the call of Gurudev Rabindranath

Tagore :

Desha desha nandita kari mandrita tabha bheri,
Aashilo jata birabrinda aashana tabha gheri.
Deen aagata oyi, Bharat tabu kayi?
Shay ki rahila lupta aaji shaba-jana-paschatay?
Luk bishwakarmabhar mili shabar shathay

(Thy call has sped over all countries of the world
And men have gathered around thy seat.
The day is come; but where is India?
Does the still remain hidden, lagging behind?
Let her take up her burden and march with all.)

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

(Interruptions)

AN HON. MEMBER : Sir, the steel industry is facing serious crisis...*(Interruptions)*

DR. DEBI PROSAD PAL (Calcutta North-West) : Sir, everybody expected that MAT will be abolished because that is the greatest hindrance to the revival of capital market which is completely in a sluggish situation ...*(Interruptions)*

MR. SPEAKER : Now, the Minister to introduce the Finance Bill.

18.26 hrs.

FINANCE BILL, 1997*

[English]

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : Sir, I beg to move for leave to introduce a Bill to give effect to the financial proposals of the Central Government for the financial year 1997-98.

MR. SPEAKER : The question is :

> "That leave be granted to introduce a Bill to give effect to the financial proposals of the Central Government for the financial year 1997-98."

*The motion was adopted.***

SHRI P. CHIDAMBARAM : I introduce the Bill.

MR. SPEAKER : The Finance Bill, 1997 has been introduced.

The House now stands adjourned till eleven on Monday.

18.27 hrs.

The Lok Sabha then adjourned till Eleven of the Clock on Monday, March 3, 1997/Phalguna 12, 1918 (Saka).

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* Published in the Gazette of India, Extraordinary, Part-II, Section-2, dated 28.2.97.

** Introduced with the recommendation of the President.