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EBS/83/16

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January 20, 1983

To: Members of the Executive Board

From: The Secretary

Subject: India - Staff Report for the 1983 Article IV Consultation and Review of the Extended Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with India and review of the extended arrangement for India. Draft decisions appear on page 32.

It is proposed to bring this subject to the agenda for discussion on Friday, February 18, 1983.

Att: (1)

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INTERNATIONAL MONETARY FUND

INDIA

Staff Report for the 1983 Article IV Consultation and Review of the Extended Arrangement 1/

Prepared by the Asian, Exchange and Trade Relations, and Fiscal Affairs Departments

(In consultation with the Legal and Treasurer's Departments)

Approved by Tun Thin and Donald K. Palmer

January 19, 1983

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1/ Under normal practice, these would be considered as 1982 consultations. They are attributed to 1983 in this case because the last Article IV consultation discussions were held in January 1982 and the Board concluded the 1982 Article IV consultations on April 15, 1982.

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I. Introduction

A staff team visited New Delhi and Bombay during November 1-11, 1982 to review progress in implementing the program for 1982/83 under the extended arrangement approved on November 9, 1981, and to hold Article IV consultations with India. Discussions were held with officials including Messrs. M. Narasimham, Secretary, and Bimal Jalan, Chief Economic Adviser, Department of Economic Affairs; Mr. K.V. Ramanathan, Secretary, Planning Commission; and Messrs. Manmohan Singh, Governor, and V.B. Kadam, Executive Director, Reserve Bank of India. The staff representatives were Messrs. Tun Thin (Head), Smith, Baumgartner, I. Kim, and Burton (all ASD), Hino (ETR), Floyd (FAD), and Harrison (World Bank), and Ms. Knauseder (ASD, secretary); Mr. Grawe of the World Bank's New Delhi office was also attached to the mission. Mr. Malhotra attended as an observer.

India continues to avail itself of the transitional arrangements under provisions of Article XIV.

II. Background to the Discussions

Economic performance during the second half of the 1970s was, on most counts, favorable. There was sustained economic growth, and progress in agriculture led to self-sufficiency in food production and the accumulation of large grain stocks. Inflation was very low during this period and the international competitive position improved considerably. The balance of payments was in surplus and there was a sizable buildup in international reserves. Toward the end of the 1970s, policies were aimed at encouraging expansion as the authorities sought to accelerate growth. However, these efforts had barely reached their full momentum when the economy suffered two severe setbacks in 1979/80 (fiscal year April-March). The terms of trade deteriorated abruptly, in large part because of higher oil import prices, and India suffered one of the most severe droughts on record. The 1979 drought had a wide-reaching impact on the economy, exacerbating latent bottlenecks in basic industrial goods and infrastructure. Economic performance during 1979/80 was marked by a fall in real GDP, the re-emergence of severe inflation, and a shift of the balance of payments into deficit during the year. Economic activity began to recover in the middle of 1980/81, but inflationary pressures persisted and external difficulties intensified. The authorities entered into a Trust Fund program in 1980/81 and began consideration of a more wide-reaching program to promote economic adjustment.

1. The EFF Adjustment Program and performance in 1981/82

The medium-term adjustment program, described in detail in EBS/81/198, is aimed at promoting external adjustment through a balanced combination of demand management policies; efforts to promote expansion in supplies, especially basic industrial goods and infrastructure where longstanding bottlenecks hampered economic performance; steps to encourage exports and import replacement; and measures to increase economic efficiency, including in particular a reduction in import restrictions and regulations inhibiting the private sector. The program supports the priorities of the large investment program in the Sixth Five-Year Plan (1980/81-1984/85) and provides for a step-up in the shares of saving and investment in GDP. In particular, the program provides for a sizable increase in savings by the public sector.

Economic developments during 1981/82, the first year covered by the program, were, in most respects, favorable and in line with those envisaged in the program. All the performance criteria established for 1981/82 were met, and the three scheduled purchases totaling SDR 900 million were made.

Real GDP expanded by 5 per cent in 1981/82, with foodgrain production rising to a record level and industrial output expanding strongly across a broad band of industries (Table 1). Improved supplies, supported by more restraining demand management policies, resulted in a sharp slowing in inflation; wholesale prices, which had risen by 16 per cent in 1980/81, rose by no more than 2 per cent over the course of 1981/82, with prices declining in the second half of the year.

Public finances were strengthened considerably, mainly because of substantial additional resource mobilization. Central Government recourse to the banking system was reduced to 2.8 per cent of GDP from 4 per cent in the previous year, and the overall deficit was also reduced from 6.6 per cent to 6.2 per cent of GDP. State finances came under increased strain, and bank financing of State deficits rose to the equivalent of 0.7 per cent of GDP. Nevertheless, total public sector savings rose to 4.3 per cent of GDP, marginally short of the program target but up significantly from 3.7 per cent in the previous year. About two thirds of the increase was in Central public savings, including a step-up in surpluses of public enterprises. This allowed a sizable increase in public investment in real terms, which was directed toward areas important to adjustment.

The reduction in government recourse to the banking system was supported by a progressive tightening of commercial credit policies during the second half of 1981/82. There was a sharp squeeze on bank liquidity in the final quarter and a slowdown in credit expansion and monetary growth. Narrow money rose by only 7 per cent, and broad money by 13 per cent, over the course of 1981/82; this represented a sharp slowdown from growth rates of 16 and 19 per cent, respectively, in 1980/81.

Despite improvements in other areas, balance of payments pressures intensified in 1981/82. Exports rose by 13 per cent, and import growth slowed to 5 per cent, but the resulting narrowing of the trade deficit was more than offset by a decline in the surplus on invisibles account, mainly reflecting a sharp reduction in workers' remittances from the high level of the previous year. As a result, the current account deficit widened by SDR 0.8 billion to SDR 3.2 billion (2.3 per cent of GDP).

Table 1. India: Selected Economic and Financial Indicators, 1980/81-1982/83

	1980/81	1981/82		1982/83	
		Program	Actual	Program projection	Revised estimate
	(Annual per cent changes)				
National income and prices					
GDP at constant prices	7.5	4.8	5	5	2
GDP deflator	11.1	9	8	8.5	7
Wholesale prices 1/	15.8	11.0	2.4	8.0	8.0
External sector (on the basis of SDRs)					
Exports, f.o.b.	9.7	16.2	13.3	11.9	11.7
Imports, c.i.f.	34.8	12.4	5.2	3.9	6.2
Non-oil imports, c.i.f.	18.7	29.8	13.7	11.2	14.1
Export volume	-5.2	5.0	6.7	7	5-7
Import volume	11.3	2.0	-2.8	-0.8	1.3
Terms of trade (deterioration -)	-4.6	0.3	-1.9	--	--
Nominal effective exchange rate (depreciation -) 1/	-3.8	...	-2.9	...	0.9 2/
Real effective exchange rate (depreciation -) 1/	3.2	...	-5.0	...	3.9 2/
Central Government budget					
Revenue and grants	13.1	16.8	19.8	14.5	14.5
Total expenditure and net lending	19.3	15.5	14.6	11.6	13.6
Money and credit 3/					
Domestic credit	22.7	19.4	18.7	18.9	18.9
Government	29.1	20.1	19.1	17.9	17.9
Commercial sector	18.4	18.9	18.4	19.6	19.6
Money and quasi-money (M3)	18.5	15.7	12.8	15.5	15.5
Narrow money	16.3	...	7.3	12.5	12.5
Interest rate (annual rate, one-year savings deposit)	7.5	7.5	8.0	8.0	8.0
	(In per cent of GDP)				
Public sector savings	3.7	4.4	4.3	5.0	4.8
Central public sector savings	2.3	2.9	2.8	3.3	3.2
Central Government budget deficit	6.6	6.4	6.2	5.6	6.2
Domestic bank financing	4.0	3.1	2.8	2.8	3.1
Foreign financing	1.1	0.9	0.7	0.7	0.8
Gross capital formation	24.1	25.7	25.2	25.5	24.8
Gross domestic savings	22.2	23.7	22.9	23.4	22.6
Current account deficit	1.9	2.0	2.3	2.1	2.2
External debt 3/ (inclusive of use of Fund credit)	11.6	11.2	12.5	12.0	12.5
Debt service ratio 4/5/	7.6	8.1	8.2	11.0	10.5
Interest payments 4/5/	2.8	2.7	3.3	4.3	4.4
Overall balance of payments (SDRs mn.)	-440	-1,683	-2,175	-1,683	-1,716
Gross official reserves (months of imports)	6	5	4	4	4
External payments arrears	--	--	--	--	--

1/ End-year percentage change.
2/ Change during March-October 1982. During November and December, the nominal effective exchange rate depreciated by 2.7 per cent.
3/ End of period.
4/ In per cent of current receipts.
5/ Including IMF.

Gross capital inflows amounted to SDR 2.0 billion, slightly less than in the previous year, and included SDR 0.2 billion of loans on commercial terms. New commitments of commercial loans, including private nonguaranteed loans, amounted to SDR 0.9 billion in 1981/82, about the same as in the previous year. The overall deficit rose to SDR 2.2 billion, and international reserves were reduced by some SDR 1.5 billion. At March 1982, international reserves were SDR 4.3 billion (including gold holdings of SDR 0.3 billion valued at SDR 35 per ounce), equivalent to approximately four months of estimated imports in 1982/83.

2. The 1982/83 Program and performance to date

The program for 1982/83 is described in detail in EBS/82/102. When the program was prepared, 1982/83 was envisaged as a year in which the considerable progress achieved in the previous year would be consolidated and expanded. On the assumption of favorable weather, economic growth was projected to be again 5 per cent and, with continued firm demand management, inflation would be contained. The program included measures to increase domestic savings in both the private and public sectors. Part of the increase in public savings would result from a strengthening of the Central Government budgetary position, which would also result in no change in bank financing and a reduction in the overall deficit as proportions of GDP. Higher public savings would facilitate the noninflationary financing of a sizable increase in public investment in key sectors. Private industrial activity and general efficiency would be improved by policy changes to reduce pricing and regulatory constraints, and by a significant liberalization of import restrictions directed particularly toward the export sector.

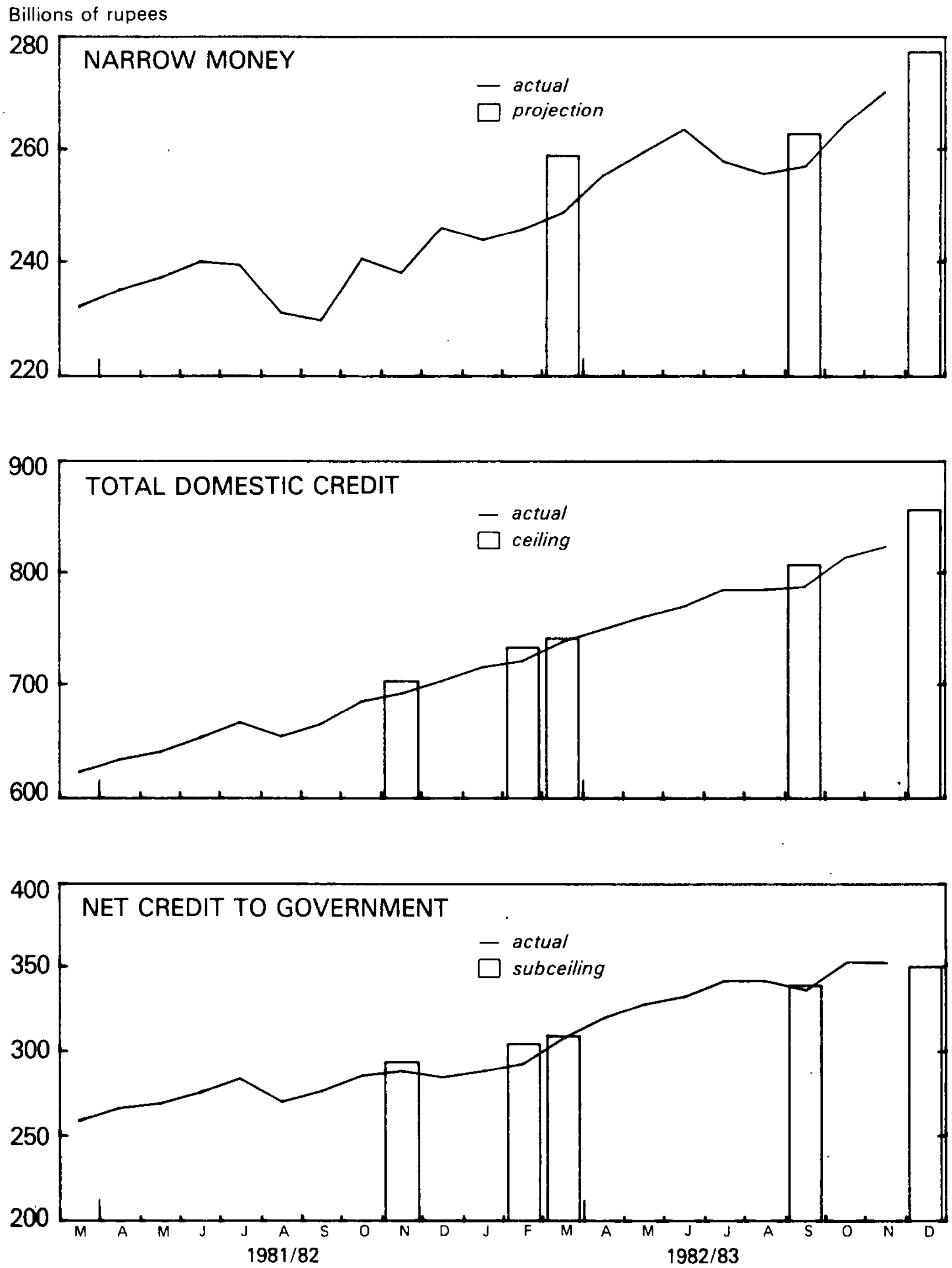
As a result, the underlying balance of payments position was expected to strengthen. Exports were targeted to rise by 7 per cent in volume terms, while import volume would decline slightly as sizable increases in general imports were more than offset by lower oil and other bulk items because of rising domestic production. Assuming stability in the terms of trade, the external current account deficit was projected to narrow slightly, and be reduced as a proportion of GDP, while the overall deficit would be reduced to SDR 1.7 billion.

The program includes, as performance criteria, a phased ceiling on total domestic credit and a phased subceiling on net credit to the Government; a ceiling on the official contracting or guaranteeing of external debts in the 1-12 year maturity range, with a subceiling for maturities between 1 and 5 years; and the usual understandings relating to exchange and trade practices. These performance criteria have so far been observed. The credit ceiling and subceiling for September 1982 were observed (Chart 1), and external borrowings subject to the ceiling of SDR 1.4 billion amounted to SDR 239 million in the period up to October 1982; those subject to the subceiling of SDR 0.2 billion amounted to SDR 23 million. India has made both purchases scheduled so far in 1982/83 totaling SDR 900 million. The 1982/83 program also provides, as a performance criterion, for a mid-year review of policies,

CHART 1

INDIA

PERFORMANCE OF MONEY AND CREDIT UNDER THE 1981/82 AND 1982/83 FINANCIAL PROGRAMS



Sources: Data provided by the Indian authorities and EBS/81/198.

including, in particular, those bearing on the resource position of the Central and State Governments in light of the public finance targets for 1982/83; all aspects of export development; and the implementation of the new import policy.

III. Report on the Policy Discussions and EFF Review

1. Growth and prices in 1982/83

The economic environment has turned out to be much less favorable than envisaged when the program was prepared at the beginning of the year. Rainfall during the 1982 monsoon season was generally well below normal, and severe drought conditions were experienced in several major grain producing areas, especially in the east and south. As a result, foodgrain production from the kharif (autumn) harvest has been sharply reduced. Intensive efforts are being made to recoup some of the loss during the coming rabi (spring) crop. At present, the authorities are projecting that foodgrain production in 1982/83 will be about 125 million tons, some 8 million tons less than in 1981/82 and 16 million tons short of the production target. Output of other agricultural products, including jute and groundnuts, has also been affected, although the overall impact will be less than that on foodgrain. The authorities are now projecting that agricultural incomes will decline by at least 2 per cent in 1982/83, whereas the program had envisaged an increase of about the same order.

The industrial climate has also been less buoyant than in 1981/82. Industrial production was 4 per cent higher in the first five months of 1982/83 than in the same period a year earlier, down from 9 per cent growth in 1981/82 as a whole. Some slowdown in the rate of industrial expansion had been expected, but unforeseen factors have been in evidence. On the supply side, while the availability of basic goods and infrastructure has continued to expand satisfactorily (in marked contrast to the situation during the 1979 drought), a major and prolonged strike in the important textile industry has had an impact on overall output. More important constraints have emerged from the demand side, and several important industries, including steel, heavy vehicles and tractors, aluminum, chemicals and jute, have experienced weak demand. The authorities believe that problems faced by individual industries mainly reflect inventory adjustments and factors specific to those industries. Nevertheless, more general influences have had some impact: these include the tight monetary conditions, weak demand in the world economy, and the maintenance of a liberal import policy in a period of recession in the industrial world. Some steps have been taken to assist affected industries, and the authorities believe that the underlying factors influencing industrial performance from the supply side should allow reasonable growth during the remainder of the year. However, continued recession abroad and the impact of the fall in agricultural incomes on demand will be constraining factors. As a result, growth is likely to be considerably less than the program estimate of 7 per cent. Overall, the authorities now estimate that real GDP growth will be no more than about 2 per cent in 1982/83.

Despite the poor harvest and industrial slowdown, inflationary pressures have been contained. The increase in wholesale prices over the 12 months to October 1982 was 2 per cent, the same as in 1981/82. Associated with the late arrival of the monsoon, but also partly for seasonal reasons, prices jumped in June and July (Chart 2). However, with the timely announcement by the authorities of precautionary imports of wheat to support the public distribution system, steps to increase market supplies of other sensitive food items, and continued tight monetary policies, price pressures were contained before they spilled over into speculation and inflationary expectations; wholesale prices have since declined significantly during September to December. Recent low annual inflation rates on a point-to-point basis reflect, to a large extent, the decline in prices during the second half of 1981/82 because of special factors related particularly to developments in the sugar sector. Prices are expected to follow a more normal seasonal pattern over coming months as a result of which the 12-monthly rate of inflation would increase. Nevertheless, the authorities believe that inflation in 1982/83 as a whole will be contained to about 8 per cent as envisaged in the program.

2. Financial policies

a. Monetary and credit policies

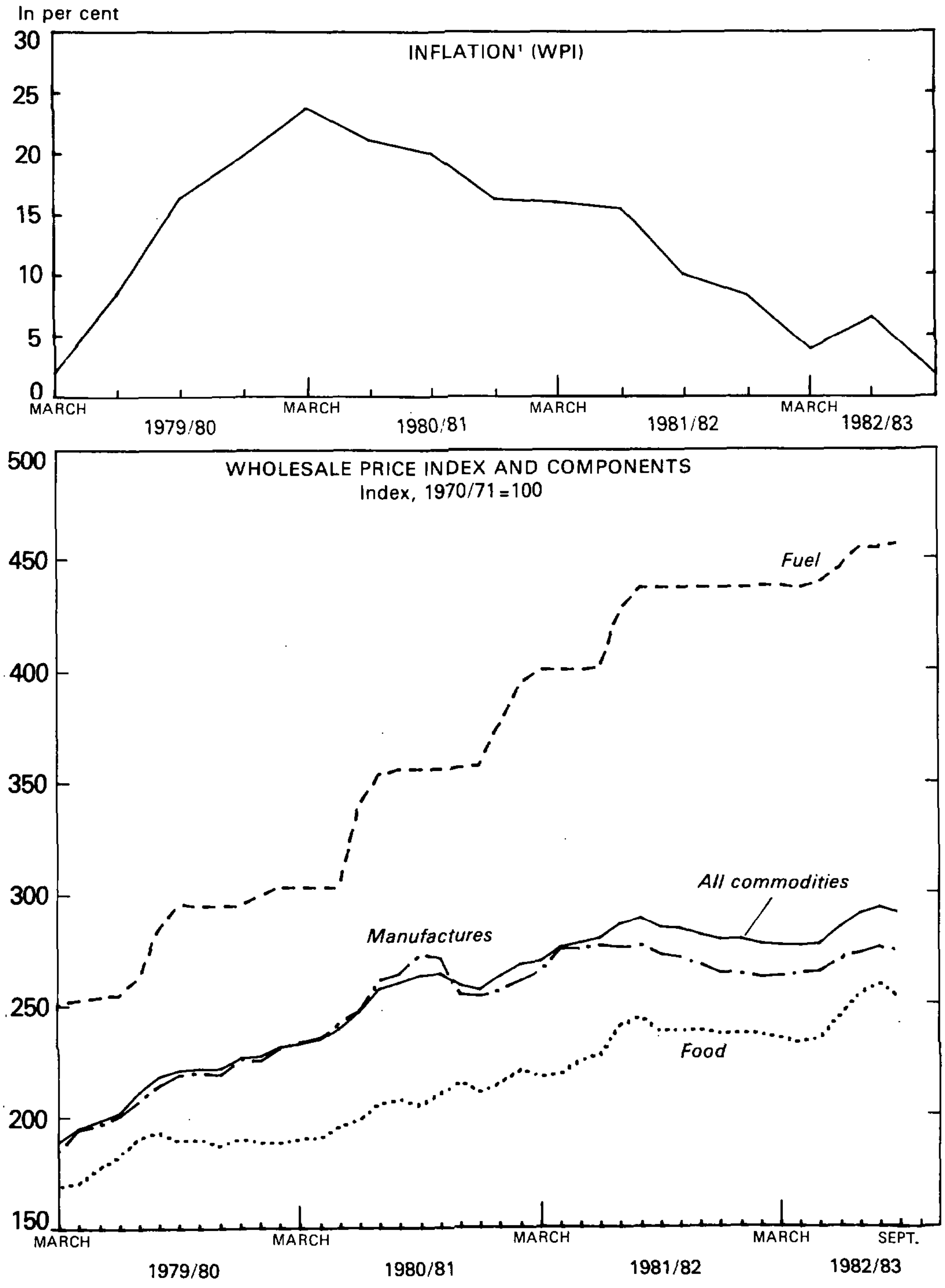
Commercial credit expanded briskly during the traditional slack season (May-October) in 1981/82, fueled by substantial increases in reserve money prior to mid-1981. Therefore, in the middle of 1981 the Reserve Bank of India (RBI) took steps aimed at restraining growth in commercial credit within bounds consistent with the financial program for 1981/82; the cash reserve ratio of banks (CRR) was raised in two stages, and the statutory liquidity requirement of banks (SLR), which fixes the share of deposit liabilities to be held in government and other approved securities, was also raised in two stages. Faced with indications of continuing fast commercial credit expansion, the RBI at the beginning of the busy season (November-April) announced a further increase in the CRR to be implemented in four stages between November and February.

The above measures were reinforced by two other important developments during this period. First, the growth in reserve money ceased after July 1981 as bank financing of the government deficit was subjected to stricter discipline and the balance of payments deficit widened. Second, the resource position of the banks was depleted by the diversion of deposits into alternative financial assets including, in particular, Special Bearer Bonds which attracted large subscriptions from illegal channels, mainly in the December quarter. The confluence of these contractionary forces resulted in considerable pressure on the resource position of the banks at the end of 1981, and monetary growth slowed from annual

CHART 2

INDIA

INFLATION AND WHOLESALE PRICES, 1979/80-1982/83



Source: Data provided by the Indian authorities.

[1]Twelve monthly rate of change of quarterly averages.

rates in excess of 16 per cent in the first half of the year to 14 per cent (Table 2). The pressure on bank liquidity intensified in the March quarter. Defaults in reserve requirements, which had emerged in the December quarter, became widespread and peaked at over Rs 8 billion in February 1982. At the same time, the growth in credit was sharply curtailed and the contractionary impact of external transactions increased. Thus, by March 1982, the annual expansion in the money supply had fallen to 7 per cent, and that in broad money to 13 per cent, substantially less than envisaged in the financial program for 1981/82.

Such a sharp liquidity squeeze had the potential to severely disrupt economic activity. Although some industries experienced difficulties because of inadequate credit, the impact on business as a whole was softened by intercompany credit accommodation, large capital raisings, sizable withholding of payments by sugar mills to cane growers, and the continuing activity of cooperative banks. At the end of February, the RBI acted to relax the squeeze by delaying the activation of the final installment of the increase in the CRR announced in October; this increase was subsequently cancelled. Also, the RBI began providing sizable support to banks through the stand-by and discretionary refinance schemes, and in April, reduced the CRR further. With this assistance, the banks were able to adjust their positions so that by the end of April they were fully in compliance with reserve requirements and were in a position to again expand credit.

Despite the improved position of the banks, credit expansion continued to be slow, and in fact, outstanding nonfood credit declined slightly in the June quarter. The delay in the recovery in bank lending mainly reflected caution on the part of the banks. Such an approach was understandable in view of the severe strains which they had recently experienced. At the same time, the business community was faced with very tight credit conditions throughout almost the entire first half of 1982. Despite complaints from business, the authorities believe that most priority credit needs were met. It seems probable that the tight liquidity position discouraged stock-building and was a factor in maintaining price stability during the period when the prospects for slower growth in supplies became evident. The RBI further reduced the CRR in June and took steps in July 1982 to assure the banks that resources would be provided if needed to support further credit expansion over coming months; the banks were also encouraged to meet the credit needs of certain industries which had experienced difficulties. As a result, nonfood credit picked up considerably in the September quarter. However, total domestic credit remained well within the ceiling set for September, and while the annual growth in money supply rose to 12 per cent, it remained somewhat less than envisaged in the financial program. There was a further sizable expansion in money supply in October and November 1982.

The RBI in October provided new guidance to the banks on credit operations for coming months. No changes have been made to the CRR and SLR, but measures have been introduced to provide credit support to selected industries including exports and those where limited credit

Table 2. India: Monetary Survey, 1981-83 1/

(In billions of rupees)

	1981		1982							1983
			March		June	September		November	December	March
	March	December	Program	Actual	Actual	Program	Actual 2/	Actual 2/	Program	Program
Domestic credit	622.3	702.9	741.8 3/	738.7	769.6	807.3 3/	788.3	822.9	856.6 3/	876.8 3/
	(23)	(22)	(19)	(19)	(18)	(21)	(19)	(19)	(22)	(19)
Net credit to Government	259.5	285.1	309.8 4/	309.0 4/	333.5	339.5 4/	336.3	353.2	350.6 4/	364.5 4/
	(29)	(23)	(20)	(19)	(21)	(23)	(22)	(22)	(23)	(18)
Credit to commercial sector	362.8	417.8	432.0	429.7	436.1	467.8	452.0	469.7	506.0	512.3
	(18)	(21)	(19)	(18)	(16)	(21)	(16)	(17)	(21)	(19)
Net foreign assets	47.3	31.9	30.1	26.6	23.9	16.9	16.2	13.3	12.1	9.0
Broad money	554.5	617.5	639.9	625.3	652.8	681.0	666.4	688.4	716.8	724.1
	(19)	(16)	(16)	(13)	(12)	(16)	(13)	(14)	(16)	(16)
Narrow money	232.1	246.0	259.0	249.0	263.6	262.8	257.2	269.8	277.3	282.1
	(16)	(14)	(11)	(7)	(10)	(14)	(12)	(13)	(13)	(13)

Sources: Based on information provided by the Indian authorities and EBS/82/102.

1/ Figures in parentheses are percentage changes over 12 months. Data refer to last Friday of the month except March. March data refer to the last Friday for the commercial banks and March 31 after closure of government accounts for the Reserve Bank of India.

2/ Includes certain adjustments to make figures comparable with program projections (see associated paper on India--Recent Economic Developments).

3/ Ceiling.

4/ Subceiling.

availability has affected production; central control under the credit authorization scheme has also been liberalized. In its sectoral aspects, the credit policy aims to take account of the aggregate flows of resources to industry and the authorities' efforts, which appear to be meeting with success, to encourage larger and stronger industries to reduce their reliance on the banking system. While there is considerable scope for commercial credit expansion within the framework of the financial program, the general stance of the credit policy is cautious. Despite slower economic growth, the financial program is considered to continue to provide a broadly appropriate guide for monetary policy over coming months. In particular, reduced agricultural incomes would be expected to have an impact on the demand for money mainly in the following year. At the same time, the authorities are keenly aware of the potential for a surge in inflation as the supply position tightens, and the overriding objective of credit policy is to prevent the re-emergence of inflationary expectations. Based on present indications, the authorities expect commercial credit expansion during the remainder of 1982/83 to be somewhat less than provided in the financial program. However, they emphasize that sizable additional credit needs could emerge later in the year to provide essential support for the sugar, jute, fertilizer, and textile industries.

In March 1982, interest rates on shorter-term deposits were raised by 0.5 to 1.5 percentage points following upward adjustments for longer-term rates in the previous year. In October 1982, the authorities introduced a separate category for time deposits of five years and above with an interest rate of 11 per cent per annum; previously, the longest maturity bracket was for deposits of three years or more and the highest interest rate was 10 per cent. The authorities indicated that this step was taken to encourage long-term private savings through the banking system, in view of evidence that private savers are influenced strongly by the maximum rate on deposits and are not discouraged by long maturity. The authorities are aiming to improve the competitive position of bank deposits among alternative financial assets. They had been concerned that, with the noticeable widening of the range of financial assets, bank deposits had become significantly less attractive. Competing assets include attractive new financial instruments issued by the Government, particularly six-year National Savings Certificates, Special Bearer Bonds issued in 1981/82, and Capital Investment Bonds introduced in the current year, while the company capital market, which expanded sharply in 1981/82, is consolidating these gains in the current year. With the increases in interest rates and continued low inflation, bank interest rates are generally positive in real terms, and substantially so for many categories of bank lending where rates range up to 19.5 per cent per annum. Interest rate policy is being kept under review in the light of developments in inflation and business conditions. The authorities are also undertaking a general review of the instruments and processes of monetary policy in India, and of the effectiveness of the credit authorization scheme.

b. Public finances

(1) The Central Government budget

The program for 1982/83 took account of the likelihood that some additional expenditures would be incurred beyond those provided for in the budget presented to Parliament in February 1982 and described in EBS/82/44. The program allowed for supplementary expenditures totaling Rs 5.1 billion to cover automatic cost of living adjustments and larger transfers to State Governments to finance Plan expenditures; additional contingencies were covered by the possibility that revenue performance would exceed the budget estimate. With revenues estimated to rise by 15 per cent, and expenditures, by 12 per cent, the overall deficit would be contained to Rs 94.6 billion, only 7 per cent higher than in 1981/82 but reduced by 0.6 percentage points to 5.6 per cent of GDP (Table 3). Bank financing of the Central Government was estimated to amount to some Rs 47 billion, equivalent to 2.8 per cent of GDP. The program provided for a ceiling on net bank credit to Government (including the States) of Rs 55.5 billion, compared with the ceiling of Rs 51.75 billion in the program for 1981/82.

Sharply slower growth and the need to counteract some of the impact of adverse weather have created budgetary difficulties in 1982/83. The slowdown in industrial growth has resulted in revenues falling behind the budget estimates in the early months of 1982/83; this has been aggravated by a legal dispute concerning the coverage of excises, which the authorities expect to be settled soon. Were present trends to continue, the revenue shortfall would amount to up to Rs 2 billion. At the same time, expenditures have been increased. Supplementary expenditures already approved total Rs 9.9 billion, well in excess of the program allowance of Rs 5.1 billion. Current expenditures of Rs 3.4 billion additional to those allowed for in the program include Rs 2.0 billion on fertilizer account and Rs 0.7 billion for flood relief. Capital expenditures additional to the allowance in the program total Rs 1.4 billion, mainly covering transfers to public enterprises. These amounts exclude additional amounts of Rs 0.3 billion for flood relief and Rs 3.0 billion for drought relief which, while not yet approved by Parliament, can be expected to receive priority approval.

Net bank credit to Government was maintained within the ceiling for September and, although net credit to Government in November was slightly above the ceiling for December 1982, the authorities emphasized their determination to remain within the ceilings during the year. To this end, some steps have already been taken, and others will be taken as needed to eliminate the prospective budgetary gap from the program estimate of some Rs 10.1 billion. On the revenue side, efforts are being made to intensify tax collection and tax administration, on the basis of which the authorities believe that the original budget revenue estimate will be achieved; consideration was also being given to additional revenue measures. In addition, railway freight rate adjustments are estimated to yield an additional Rs 1 billion in revenue, of which about half would

Table 3. India: Summary of Central Government Budget, 1979/80-1982/83

(In billions of rupees)

	1979/80	1980/81	1981/82 Revised	1982/83 Budget	1982/83 Program	1982/83 Updated Estimates
Total revenue and grants	113.4	128.3	153.7	176.0	176.0	176.0
Current revenue	109.5	124.6	150.6	173.8	173.8	173.8 1/
Foreign grants	3.9	3.7	3.1	2.2	2.2	2.2
Total expenditure and net lending	177.3	211.5	242.4	265.5	270.6	275.4
Current expenditure	120.3	136.0	159.5	182.3	184.8	188.2 2/
Capital expenditure and net lending	57.0	75.5	82.9	83.2	85.8	87.2 3/
Overall deficit	-63.9	-83.2	-88.7	-89.5	-94.6	-99.4 4/
Net external financing	5.8	13.4	10.6	14.7	12.5	12.5
Gross	9.9	17.3	14.9	19.3	17.0	17.0
Repayment	4.1	3.9	4.3	4.5	4.5	4.5
Domestic borrowing	58.1	69.8	78.1	74.8	82.1	86.9
Net market borrowing	19.5	25.8	29.0	32.0	32.0	32.0
Nonmarket and miscellaneous financing	14.3	18.3	32.1	29.1	29.1	29.1 5/
Official deficit financing	24.3	25.7	17.0	13.7	21.0	25.8
Memorandum items:						
Bank financing 6/ (Rs.bn.)	36/0	50.6	39.2	...	47.0	48.1
Overall deficit (In per cent of GDP)	6.0	6.6	6.2	5.3	5.6 7/	6.2 8/
Bank financing (In per cent of GDP)	3.4	4.0	2.8	...	2.8 7/	3.1

Sources: Budget at a Glance and Explanatory Memorandum on the Budget of the Central Government for 1981/82 and 1982/83; Budget of the Central Government for 1981/82 and 1982/83; and data provided by the Indian authorities.

1/ Excludes additional nontax revenues of Rs 0.5 billion likely to result from the reclassification of certain freight items in the railway tariff schedule.

2/ Includes approved supplementaries totaling Rs 3.3 billion and dearness allowances totaling Rs 2.6 billion. However, the effects of additional non-Plan expenditure for flood relief (about Rs 0.3 billion) and likely shortfalls in various recurrent outlays (likely to reach Rs 2.0 billion) have been excluded.

3/ Includes Rs 4.0 billion in approved supplementaries for the Government and the railways. Excludes possible additional Plan expenditures for drought relief (likely to be Rs 3.0 billion) and various shortfalls from budget estimates (likely to be Rs 4.0 billion).

4/ Taking account of the factors indicated in footnotes 1, 2 and 3 above, the overall deficit would amount to Rs 96.2 billion.

5/ Excludes additional borrowings from small savings and provident funds expected to total Rs 0.5 billion.

6/ Partly estimated.

7/ Program target ratios to GDP were based on an earlier estimate of GDP that has subsequently been revised. Using the revised estimates of GDP would yield ratios to GDP of 6.1 per cent for the overall deficit and 3.0 per cent for bank financing.

8/ Taking account of adjustments noted in above footnotes.

accrue to the budget. On the expenditure side, efforts will be made to eliminate unnecessary expenditures already budgeted; on the basis of past experience, shortfalls in budgeted expenditures would be expected in some areas as a matter of course. These expenditure savings are estimated to total Rs 6 billion, of which Rs 2 billion would be current expenditure.

These steps are estimated to eliminate most of the budgetary gap from the program estimates. The overall deficit would amount to Rs 96.2 billion, only slightly higher than the program estimate. As a proportion of the revised lower estimate of GDP, the deficit would be 6.2 per cent, unchanged from 1981/82 (Chart 3). Bank financing of the deficit would amount to some Rs 48 billion, equivalent to 3.1 per cent of the new GDP estimate and 0.3 per cent of GDP higher than in 1981/82. However, this amount is only modestly higher than the program projection and is not inconsistent with the ceiling for the government sector (including the States) in the credit program.

Since the mission's return, the authorities have taken several steps to raise additional budgetary revenue. On December 8, 1982, auxiliary customs duties were raised by 5 percentage points on most imports, other than petroleum and petroleum products, fertilizers and newsprint. Previous concessions of additional duties on some iron and steel imports were also withdrawn. The authorities estimate these measures will have a revenue impact of Rs 0.9 billion in the remainder of 1982/83. In addition, excise duty concessions on cigarettes were withdrawn on November 30, 1982 which would have a significant revenue effect.

(2) <u>State finances</u>

Despite substantial resource mobilization efforts, State budget deficits rose sharply in 1981/82 and the States accumulated sizable aggregate overdrafts with the Reserve Bank. Net lending by the Reserve Bank to the States amounted to Rs 7.9 billion in 1981/82, some 60 per cent more than in the previous year. Reserve Bank lending to the States rose by a further Rs 7.8 billion during the June quarter of 1982, although part of this reflects seasonal factors.

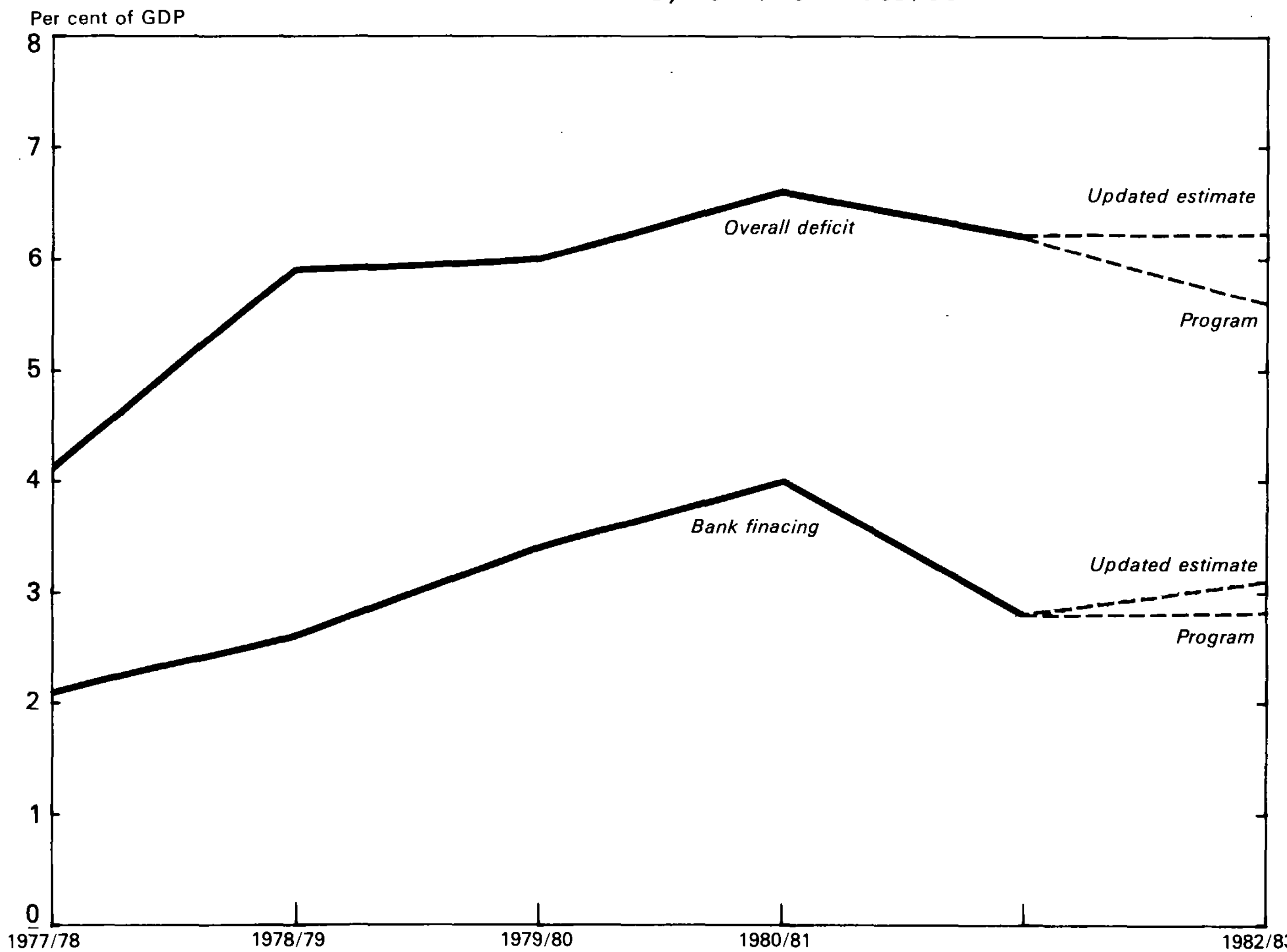
The authorities are concerned to improve the financial position of the States. The States have so far during 1982/83 implemented additional resource mobilization measures (including amounts not accruing to State budgets) totaling about Rs 6.3 billion, and new resource mobilization in 1982/83 as a whole is expected to reach about Rs 7 billion; the program had envisaged State resource measures of Rs 7.4 billion in 1982/83. The authorities anticipate that, as with the Centre, the position of the States will be adversely affected by weather and slow growth in the current year. However, while States have responsibility for administering drought relief programs, the financial burden of these expenditures falls mainly on the Centre.

Steps have been taken to strengthen control over State overdrafts with the Reserve Bank to ensure that large unanticipated State deficits are not again incurred. To this end, on July 1, 1982, outstanding State

CHART 3

INDIA

CENTRAL GOVERNMENT OVERALL DEFICIT AND BANK FINANCING, 1977/78 - 1982/83



Source: EBS/82/102 and data provided by the Indian authorities.

overdrafts with the Reserve Bank at the end of 1981/82 were taken over by the Central Government, and it has been agreed that the States will amortize these amounts over a five- to ten-year period. The overdrafts incurred during the June quarter of the current year have also been taken over by the Central Government, but will be deducted from Central payments to the States during the year. Starting from this clear position, States will henceforth be required to stay within the ways and means advances provided by the RBI (which have been doubled to an aggregate Rs 6.7 billion). Procedures have been established for consultation between the States and the RBI when a State overdraft comes within 75 per cent of its ways and means limit, with the ultimate sanction that the Reserve Bank could dishonor checks of States in default. So far no State has exceeded its new ways and means limit.

(3) Public savings and Annual Plan financing

The impact of poor weather and slow economic growth will also be reflected in public savings in 1982/83. Central budgetary savings are projected to fall below the program target, but, as a result of the actions being taken to strengthen the budgetary position noted above, the savings shortfall is expected to be small (Table 4). The bulk of the shortfall expected in Central public savings will be because of lower surpluses of nonfinancial public enterprises, which are currently projected to amount to Rs 28.5 billion, 16 per cent below the program target. The authorities indicate that the shortfall arises mainly because of the effects of recessionary conditions in some public sector industries. In particular, the steel industry is experiencing sluggish activity, and there has been a sharp buildup in stocks which will reduce its surplus by some Rs 2 billion in the current year. Also, surpluses of the oil sector have been affected by the depreciation of the rupee against the U.S. dollar while domestic prices have been unchanged. Nevertheless, some steps have been taken to strengthen the resource position of enterprises without which the shortfall in surpluses would be larger. Steel prices, from which controls were lifted in April 1982, rose in October on items comprising 60 per cent of production, and stockyard charges were more than doubled. Higher rail freight charges noted above will also contribute to internal resources of the railways. Few details are yet available on developments in State public sector savings, but despite sizable resource mobilization, the authorities expect the slowdown in economic activity to reduce State savings to Rs 25 billion, 14 per cent below the program projection.

Taken overall, public sector savings available for Plan financing are currently estimated to total Rs 74 billion in 1982/83, Rs 10.1 billion below the program target. This would nevertheless represent a 20 per cent increase over the estimated achievement in 1981/82, and as a proportion of GDP (as revised downward) would be an increase from 4.3 to 4.8 per cent. The authorities' view is that this represents a creditable performance under difficult circumstances. However, in the absence of additional resource mobilization, resources are only available to finance Plan expenditures to a level Rs 9.9 billion less than the original estimate of Rs 209.4 billion in 1982/83.

Table 4. India: Public Sector Savings for Annual Plan Financing, 1980/81-1982/83

(In billions of rupees)

	1980/81	1981/82		Projection 1982/83	
		Program 1/	Revised	Program 2/	Updated estimates
Central public sector resources	29.1	43.3	40.0	55.0	49.0
(Per cent of GDP)	(2.3)	(2.9)	(2.8)	(3.3)3/	(3.2)
Budgetary resources	12.7	19.6	17.4	21.1	20.5
Nonfinancial enterprises	16.4	23.7	22.9	33.9	28.5
State public sector resources	16.9	21.4	21.4	29.1	25.0
Public savings available for Plan financing	46.0	64.7	61.7	84.1	74.0
(Per cent of GDP)	(3.7)	(4.4)	(4.3)	(5.0)3/	(4.8)

Source: Staff estimates based on discussions with the Indian authorities.

1/ Revised from EBS/81/198, Table 10, because of minor refinements to statistical definition of savings.
2/ From EBS/82/102, Table 10.
3/ The ratios of Central and total public savings to GDP in the program were based on an earlier estimate of GDP that has been revised. Using the revised estimate would yield ratios of 3.5 per cent and 5.4 per cent, respectively.

The authorities reiterated their intention to maintain expenditures within the bounds of available resources. Steps to contain the budgetary gap noted above are estimated to allow savings in Plan expenditures in less essential areas totaling some Rs 4 billion. However, it is likely that further adjustments in the Plan would be necessary, and pending requests for supplementary authorization will have to be denied. Resources would be available to finance an increase in expenditures of about 10 per cent over the revised estimates for 1981/82, and the authorities expect to be able to maintain the increases projected in investments in key sectors. The authorities reaffirmed the importance they attach to resource mobilization for the well-being of the economy and indicated that, as in the past, emphasis will continue to be on resource mobilization. They noted that a part of the deterioration in the budgetary and savings outlook resulted from an increase in the fertilizer subsidy, which is now expected to double to Rs 5.5 billion in 1982/83, but pointed out that it was neither feasible nor appropriate to raise fertilizer prices prior to the rabi crop while agriculture was experiencing severe difficulties.

3. Industrial policies

a. Industrial environment

In the present industrial environment, policies are focusing on alleviating, when appropriate, difficulties experienced by particular industries. No major industrial policy changes have been made since the measures introduced in April 1982; these were aimed at eliminating constraints on production arising from licensed capacity restrictions and reducing restrictions on the scope of operation of large companies subject to the Monopolies and Restrictive Trade Practices (MRTP) Act and foreign investment (FERA) companies. These measures are now being implemented, but the authorities indicated that it was too early to assess their effectiveness. On the pricing side, the authorities are satisfied with the effects of policies introduced in 1982 to reduce the scope of price controls on cement and eliminate official controls on iron and steel prices. Because of strong construction demand, prices in the free cement market have risen to recoup about half of the abrupt fall following the establishment of the dual market in February 1982. On the scope for further reducing price controls, the authorities note the limited coverage of controls and the factors specific to each case.

The authorities emphasized that the policy climate must exhibit stability in order to encourage investor confidence. For this reason, it was to be expected that changes would be introduced periodically rather than continuously. Introducing more flexibility in industrial regulations is recognized as having a role, in conjunction with import liberalization, in promoting efficiency and competitiveness. To this end, the authorities are generally satisfied with the extent of recent policy measures freeing licensing and regulatory constraints on exports, and providing liberal access to foreign technology. They are currently reviewing the effectiveness of industrial licensing policies, with a view to possible future changes. The aim of regulatory policies is to promote industrial activity in accordance with socio-economic objectives, including, importantly, the geographic dispersal of industry and income, while limiting to the minimum their inhibiting impact on business activity.

b. Import liberalization

The import policy for 1982/83 announced in April 1982 included significant liberalization steps aimed at maximizing production and promoting exports, improving efficiency, and reducing import formalities. Details of the changes are provided in EBS/82/102; an economically-weighted assessment of their significance was provided in Appendix IV to that report. Indications are that the liberalization measures are being implemented effectively and are having an impact broadly as expected. Access to imports has expanded more than expected: the value of automatic and supplementary licenses, which account for about 30 per cent of imports of raw materials and components (excluding oil and fertilizer), was 42 per cent higher during April-July 1982 than in the corresponding period a year ago, and capital goods licenses, which cover most capital goods imports, more than doubled in the same period. The increase in automatic and supplementary licenses is mainly due to the provision for built-in increases of license values. Another important objective of the 1982/83 import policy was to simplify import procedures, particularly for small-scale users, by allowing importers to use in 1982/83 automatic licenses issued for 1981/82 on a repeat basis. During April-July 1982, the number of automatic licenses issued to small-scale units fell by 31 per cent from the same period a year ago, while the average value of automatic licenses rose by over 50 per cent.

The most conspicuous recent impact of the liberal import policy that has been followed for some years has been increasing competition from foreign suppliers in the domestic market. The impact has been felt particularly in a few major intermediate goods industries, including soda ash, man-made fibers, and steel. In most cases, the items involved have been available under Open General Licence (OGL) for several years and were not included in the liberalization of the current year. Generally, import competition has been reflected in low price quotations, which in several cases have fallen considerably over the past year. It appears that producers in the industrial countries, faced with recession at home and in their traditional export markets within the industrial community, are seeking aggressively to penetrate India's market. The authorities' response to complaints from domestic producers has been to establish an official committee to assess the effects of import competition in each case. Legislation has also recently been passed providing for the imposition of countervailing duties in cases of unfair competition. However, so far no action has been taken to restrict imports despite complaints by domestic producers, although in a very few cases import duties have been increased somewhat, and in one case minimum tender prices were set. The authorities' investigations have revealed that in most cases existing rates of protection have been adequate to protect efficient producers. They recognize that import competition in intermediate goods industries has had beneficial effects on downstream producers, including those in the small-scale sector.

c. Performance in key sectors

Performance in key sectors with respect to investment, capacity utilization, and production has been generally favorable in 1982/83. Targets for capacity additions appear likely to be reached, or substantial progress achieved, in the majority of sectors. For those sectors where significant underperformance is projected, notably steel and railways, this is mainly due to special factors and should not lead to bottlenecks that will constrain economic performance.

The coal production target of 133 million tons is expected to be achieved (or marginally exceeded), and the economy's needs are generally being met at the present time (Table 5). Increased production is mainly due to new investments and improved productivity in existing mines where mechanization has been introduced; output per manshift has risen considerably over the past two years. The accelerated oil development program is also proceeding on track, and production should also meet, or marginally exceed, the projected level of 20.95 million tons in 1982/83.

Power generation has expanded in line with the target so far in 1982/83, although supply shortages continue to impede activity in certain areas and have the potential to become again a serious bottleneck. Additions to power generating capacity during the first half of 1982/83 reached 85 per cent of the schedule for this period, and the authorities expect that installed capacity will increase by 3,100 MW during the year as a whole. This would be a third higher than the achievement in 1981/82 but would still be somewhat less than the program target of 3,500 MW. It is becoming increasingly clear that installed generating capacity will be well short of the Plan target in 1984/85. Prior to this year, shortfalls resulted largely from project implementation difficulties, but considerable progress has been achieved in this area recently. In contrast, financial constraints have now become increasingly important. The authorities are making efforts on several fronts to prevent prospective shortfalls in capacity from seriously jeopardizing economic performance over the medium term. Capacity utilization rates have improved considerably as experience has been gained with new larger-scale thermal units, and the authorities believe there is scope for further sustained improvement. Steps have also been taken to strengthen the financial position of the State Electricity Boards: during the past 18 months, average power tariffs have been increased by about 30 per cent. Looking to the longer term, the authorities are proceeding with arrangements aimed at augmenting domestic efforts with additional sizable inputs of foreign financing and technology. Several large foreign-financed Central sector super-thermal plants are presently planned to come on stream in the second half of the 1980s.

Table 5. India: Agriculture and Industry Projections, 1980/81-1982/83

(In millions of metric tons)

	1980/81	1981/82 (Revised)	1982/83 Program	1982/83 Estimate
Industry capacity targets				
Coal (production)	114.0	124.1	133.0	133.0
Electric power (end-year installed capacity, '000 MW)	32.8	35.0	38.6	38.1
Nitrogenous fertilizer	4.6	4.7	5.3	5.3
Railway freight (bn. ton kms.)	158	174	184	176
Steel	11.2	11.2	12.4	11.2
Cement	27.0	29.3	38.0	36.0
Crude oil (production)	10.5	16.2	20.95	21.0
Agriculture				
Foodgrain (production)	129.9	133.1	141.5	125.0
Area under irrigation (mn. hectares)	54.4	57.2	60.1	59.6
Fertilizer consumption	5.5	6.1	7.2	6.5

Sources: Data provided by the Indian authorities and staff estimates.

Substantial improvements have been achieved in the performance of the railways. Improvements have come from better management, which has increased efficiency, and sizable supplementary investments in each of the last several years. Railway transportation is meeting the economy's needs at the present time, which is evidenced by sluggish conditions in the road transport industry. However, growth in railway freight is now expected to be slower than targeted in 1982/83; this reflects a decline in the distance an average ton of freight is hauled because of increased production of major items such as petroleum and fertilizer nearer consuming centers. Other key measures of railway performance show considerable improvement.

The expansion in the area under irrigation is estimated to decline to 2.4 million hectares in 1982/83, slightly less than the target of 2.5 million hectares. Minor irrigation, which is mainly privately financed, has continued to expand rapidly, but a considerable reduction in the additional area under larger, publicly financed irrigation schemes is now expected in 1982/83. This reduction appears to be related, in part, to financing constraints at the State level.

There has been slippage in the steel expansion program, and no significant additions to capacity are now projected to come on stream until 1984/85. Most of the additional fertilizer capacity scheduled for completion in 1982/83 has already been commissioned. Average costs for domestic production have increased considerably because prices received by new plants, which are set on the basis of production costs, are higher than those for existing plants, and feedstock prices have increased. Additions to cement capacity in 1982/83 now appear likely to be somewhat smaller than earlier expected but would still be substantially higher than in any previous year.

4. External policies

a. Balance of payments, 1982/83

On the basis of developments to date, the balance of payments outlook for 1982/83 is little changed from that envisaged at the beginning of the year and described in EBS/82/102; revised estimates are provided in Table 6.

Exports are projected to rise by 12 per cent to SDR 8.2 billion, while imports are estimated to rise by no more than 6 per cent to SDR 13.8 billion. Based on recent developments, the program assumption of no change in the terms of trade in 1982/83 remains appropriate, following four successive years of deterioration. Import volume is projected to rise by only 1 per cent following a decline of 3 per cent in 1981/82. This mainly results from a 9 per cent decline in the volume of oil imports in 1982/83. Imports of iron and steel are also projected to be reduced from the high 1981/82 level. However, because of the drought imports of foodgrains will rise by SDR 0.3 billion over the 1981/82 level to SDR 0.7 billion, while imports of edible oils would also increase.

Table 6. India: Balance of Payments, 1979/80-1982/83

(In millions of SDRs)

	1979/80	1980/81 (Revised)	1981/82 (Revised)	1982/83 (Program May 1982)	1982/83 (Revised Nov.1982)
Exports, f.o.b.	5,926	6,500	7,365 1/	8,230	8,230
Imports, c.i.f.	-9,151	-12,336	-12,977	-13,876	-13,780
Oil	(-3,125)	(-5,186)	(-4,844) 1/	(-4,640)	(-4,498)
Non-oil	(-6,026)	(-7,150)	(-8,133)	(-9,236)	(-9,282)
Trade balance	-3,225	-5,836	-5,612	-5,646	-5,550
Net invisibles	2,672	3,447	2,428	2,235	2,235
Nonfactor services	(868)	(911)	(835)	(1,097)	(885)
Investment income	(252)	(468)	(233)	(-135)	(-38)
Private transfers	(1,552)	(2,068)	(1,360)	(1,273)	(1,388)
Balance on current account	-553	-2,389	-3,184	-3,411	-3,315
Net aid	757	1,578	1,250	1,460	1,459
Disbursements	(1,268)	(2,138) 2/	(1,820)	(2,096)	(2,096)
Repayments	(-511)	(-560)	(-570)	(-636)	(-637)
Commercial borrowing (net)	--	85	194	364	333
Bilateral arrangements	294	-89	-258	--	-144
Other capital (net)	182 3/	189 3/	-49	-96	-49
Errors and omissions (net)	-340	186	-128	--	--
Overall balance	340	-440	-2,175	-1,683	-1,716
Monetary movements 4/	-340	440	2,175	1,683	1,716
IMF (net)	--	266	600	1,800	1,800
Other	-340	174	1,575	-117	-84
Memorandum item:					
Exchange rate (Rs/SDR) 5/	10.464	10.153	10.298	10.450	10.450

Sources: EBS/81/198, EBS/82/102, and information provided by the Indian authorities.

1/ Net of oil exports of SDR 190 million.
2/ Includes a Trust Fund loan of SDR 525 million.
3/ Includes SDR allocations of SDR 120 million.
4/ Increase in assets (-).
5/ Period average.

Imports of other than major bulk items are estimated to rise by about 16 per cent, reflecting the liberal import policy. Taking account of net invisible receipts of SDR 2.2 billion, including workers' remittances of SDR 1.4 billion, the current account deficit is estimated to amount to SDR 3.3 billion. This is slightly less than the program projection, but because of the downward revision to the estimate for GDP, would amount to 2.2 per cent of GDP, 0.1 per cent higher than earlier forecast (Chart 4).

Net aid inflows are forecast to amount to SDR 1.5 billion, SDR 0.2 billion more than in 1981/82, because of increased aid disbursements. Net disbursements of commercial borrowing are estimated to be SDR 0.3 billion, also considerably higher than in 1981/82. Other capital transactions, including changes in balances under bilateral payments agreements, are projected to result in a net outflow of SDR 0.2 billion, somewhat less than in 1981/82. The overall deficit in 1982/83 is now estimated to be SDR 1.7 billion, unchanged from the program projection, and some SDR 0.5 billion less than in 1981/82.

b. Export policies

During the first five months of 1982/83, export earnings were 7 per cent higher (in terms of SDRs) than in the corresponding period a year earlier. Export prices are estimated to have increased by no more than 2 per cent, while export volumes expanded by about 5 per cent. Price developments for primary exports have been mixed in 1982/83: prices have been relatively strong for exports of coffee, tea, tobacco, and marine products, but have fallen for a range of items including sugar, oilcakes, spices, cashews, and cotton. Prices for exports of many manufactured items have been weak, and have declined notably for cotton fabrics and jute goods. Based on advance indicators of exports for major items up to the end of 1982, the authorities expect recent export volume growth to be maintained. The program target of 7 per cent for the year as a whole was established at a time when export volume growth for non-oil developing countries was projected to be 7 per cent in 1982. However, it now seems likely that export volumes will grow by no more than half this rate; export performance of countries exporting manufactures is expected to be substantially weaker than the average. In this perspective, export developments in 1982/83 are favorable and the growth in India's export volume now seems likely to exceed the average for comparable countries.

The authorities noted the extremely difficult trading conditions in world markets. As in the domestic market, Indian exporters are facing increased competition, especially from producers in industrial countries who are attempting to widen the scope of their activity to compensate for sluggishness in traditional markets. This is reflected in intense competition in some markets in the Middle East, Asia, and Africa where India has an established presence. Producers from industrial countries are also re-entering markets for simple manufactured products which they had earlier left to producers from the more industrialized developing countries. The authorities pointed to increased protectionism in the markets of both the industrial and developing world. To some extent, export performance has been cushioned by the existence of already strong trading ties with Eastern Europe and the Middle East. In particular, additional exports to the Soviet Union account for more than half of the increase in total exports in 1981/82 and 1982/83.

Under the circumstances, the authorities are generally satisfied with the operation of their export development policies. Measures taken in recent years have focused on removing discouragement to exports deriving from industrial regulations and trade restrictions while ensuring export competitiveness. The 1982/83 import liberalization measures were directed particularly in favor of exports both with respect to procedural simplification and wider access to imports, while the scope of customs duty exemptions was increased. The authorities believe that increased access to imports is contributing importantly to efficiency in export industries. In September 1982, the Government announced a new schedule of rates for cash compensation support for exports for the coming three years. Cash assistance rates, ranging from 3 to 20 per cent, are reduced or withdrawn for 193 items, unchanged for 18 items, and increased or introduced for 48 items; as a result, the average rate of assistance is estimated to have declined somewhat.

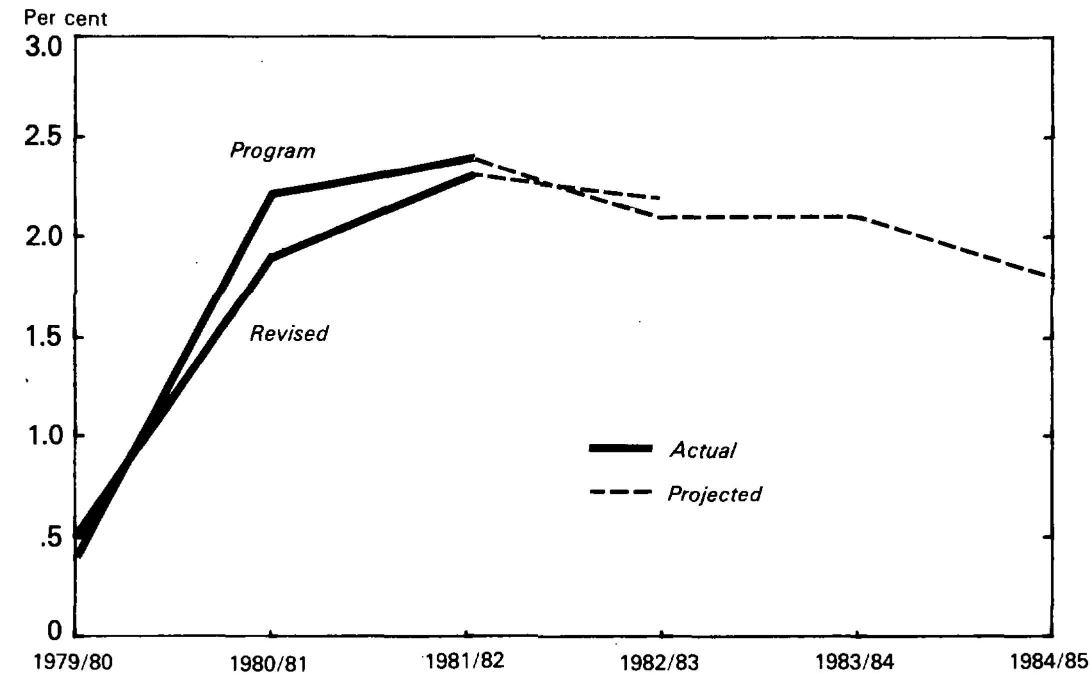
Steps have also been taken to strengthen policies designed to encourage the repatriation of foreign exchange from Indian workers abroad. Remittances were sharply reduced in 1981/82 from an exceptionally high level in the previous year which included advance and capital transfers induced by unsettled conditions in several host countries; inflows of remittances are not expected to increase significantly in 1982/83. In March 1982, interest rates on new deposits of one year and above held in accounts of nonresidents were raised by an additional 2 percentage points above the rates applicable on accounts held by residents. Steps have also been taken to liberalize controls on direct and portfolio investment by nonresident Indians. The authorities have indicated that consideration is being given to further measures to attract foreign exchange transfers from Indians resident abroad.

During 1981/82, the exchange rate depreciated by 3 per cent in export-weighted effective terms (Chart 5). Because of relatively low domestic inflation, India's competitive position, as measured by the real export-weighted effective exchange rate, improved by 5 per cent in 1981/82. With the spurt in prices in India in the early months of 1982/83, inflation moved ahead of that in trading partners, but the exchange rate remained virtually unchanged in nominal effective terms. As a result, India's competitive position deteriorated by some 5 per cent in the first five months of the current year. However, beginning in September 1982, relative price performance improved markedly, and there has been a modest depreciation of the rupee in effective terms, so that by October 1982 the deterioration since March in the competitive position, as measured by the real export-weighted exchange rate, was reduced to 4 per cent. Subsequently, the nominal effective exchange rate depreciated by 2.7 per cent in November and December. Wholesale prices continued to fall in

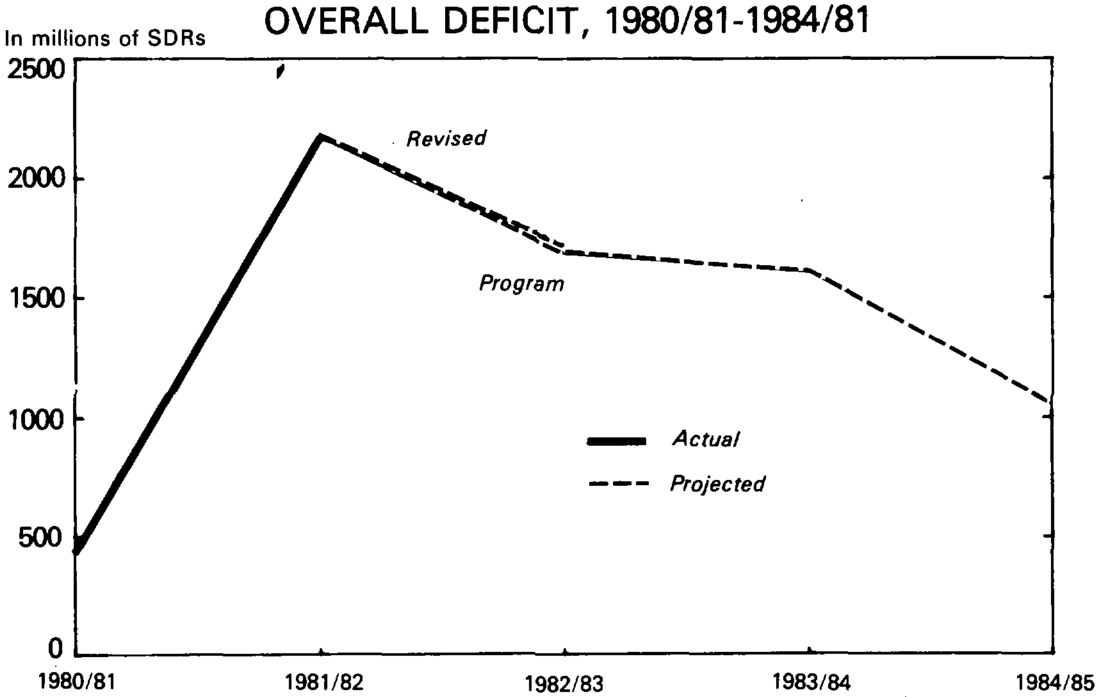
CHART 4

INDIA

CURRENT ACCOUNT DEFICIT/GDP RATIO, 1979/80-1984/85



OVERALL DEFICIT, 1980/81-1984/81

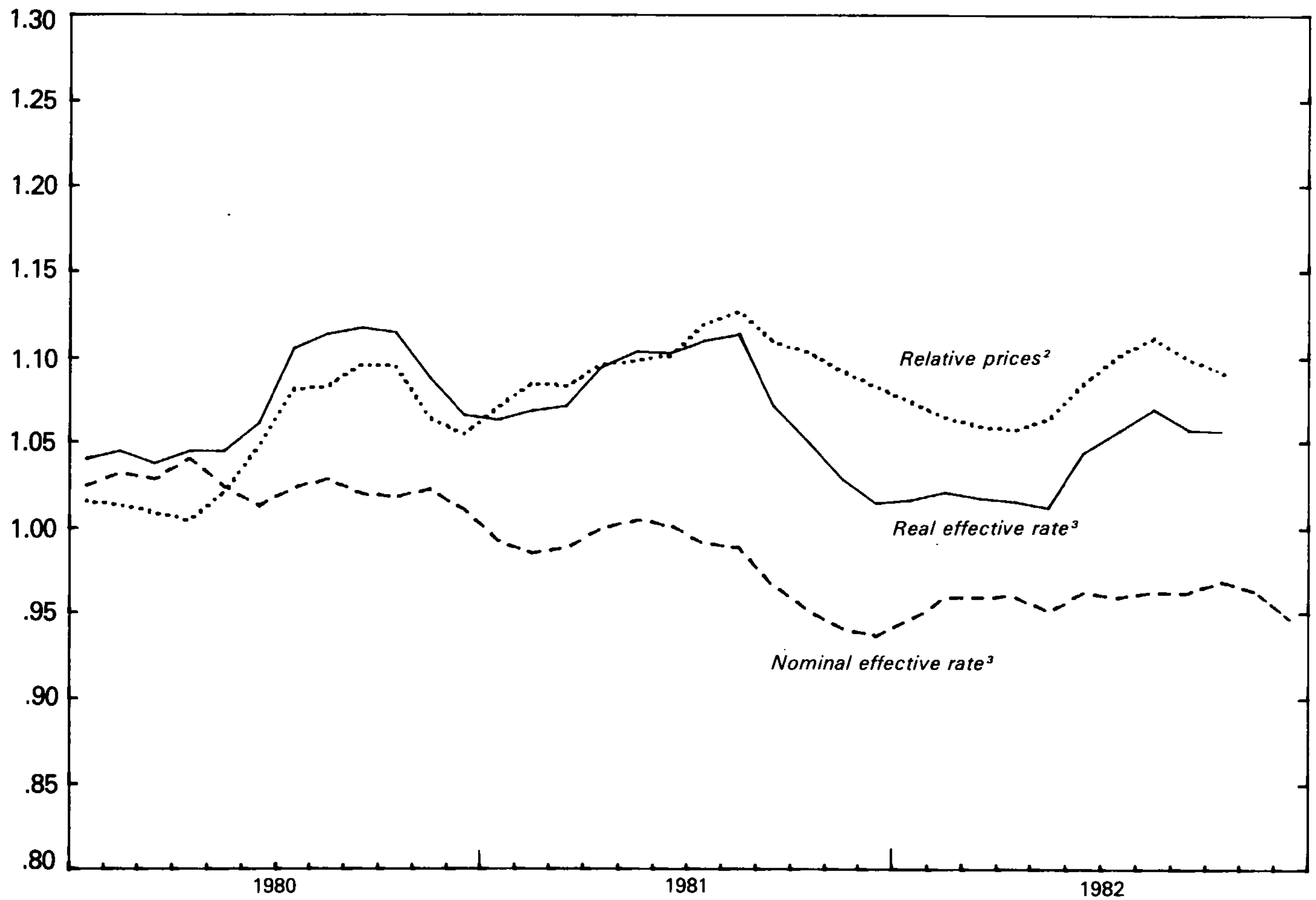


Sources: Data provided by the Indian authorities and staff projections.

CHART 5

INDIA

THE REAL EFFECTIVE EXCHANGE RATE AND ITS COMPONENTS, 1980-82[1]



Source: IMF, *International Financial Statistics.*
[1]Export weighted.
[2]Upward movement indicates higher inflation in India.
[3]Upward movement indicates appreciation of the rupee.

November and December, and it is estimated that all but a small part of the deterioration in the competitive position since March was reversed by the end of 1982. The authorities indicated that exchange rate developments were under continuous review but that wide fluctuations in the rates for major currencies made exchange rate management difficult for countries such as India. The aim, which is unchanged, is to follow a realistic exchange rate policy which supports external adjustment.

c. Exchange and payments system

No change has been made since the last consultation to the exchange rate system, and the rupee remains pegged to a basket of currencies within margins of 5 per cent. India continues to avail itself of the transitional arrangements under Article XIV and maintains a complex exchange system. There are no exchange restrictions on current transactions except for the restricted allowances for foreign travel for tourism which is subject to Article XIV. Since the last consultation, the authorities have taken some steps to simplify the exchange system, including delegating and decentralizing authority for exchange transactions, and will be examining the possibility of further changes in this direction.

India currently maintains bilateral payments arrangements with Romania and four nonmember countries--the Soviet Union, the German Democratic Republic, Czechoslovakia, and Poland. As a result of the substantial growth in exports to Eastern Europe, net outstanding bilateral balances shifted from approximate balance at the end of 1981 to a net asset position of about SDR 0.5 billion in August 1982. The authorities indicated that the sizable buildup in claims under bilateral arrangements in early 1982/83 partly reflected temporary import delays which would be reversed over coming months. The net increase in claims under bilateral arrangements during 1982/83 was estimated to be about SDR 150 million. The authorities noted that, with the recession in the western economies, the availability of markets in countries with bilateral arrangements had been of considerable benefit. They stressed the commercial basis of trading arrangements and the availability of appropriate commodities, notably oil, for import by India.

d. External borrowing and debt

Outstanding external public debt amounted to SDR 15.5 billion at the end of 1981/82, equivalent to 11.4 per cent of GDP; private external debt and short-term debt are small. The bulk of the total (some 90 per cent) relates to loans provided from the Aid Consortium. Total debt service payments are estimated to be SDR 1.2 billion in 1982/83, equivalent to 10.3 per cent of current receipts; interest payments amount to 0.3 per cent of GDP. Further details on external debt and debt servicing are provided in the paper on recent economic developments.

The authorities are expecting a large step-up in commercial borrowing commitments in 1982/83. In total, such commitments could reach about SDR 2.4 billion, more than double the amount in 1981/82. Borrowing commitments subject to the external debt ceiling within the 1 to 12-year maturity range will be close to the ceiling of SDR 1.4 billion, excluding loans for a thermal power project and a steel project. The program provides for automatic adjustment to the ceiling in the event that loans are contracted for these projects in 1982/83. Contracts have recently been signed for the thermal power project involving commercial loans of SDR 0.5 billion; no loans are now expected for the steel project in 1982/83. In addition to borrowing subject to the ceiling, the authorities now expect that commitments in 1982/83 of private loans and suppliers' credits without public guarantee will amount to about SDR 0.5 billion, the same as in 1981/82.

The authorities indicated that public and private sector borrowing is subject to close government control, and monitoring was effective because of the relatively few borrowing institutions. The Government intended to limit the pace of borrowing over the longer term in line with the likely growth in exchange earnings. Individual loans were all to finance the foreign exchange cost of projects or, in the case of borrowings by financial institutions, for official onlending programs. A number of factors were taken into account in approving individual borrowing plans. Priority approval was given to loans for projects in the power sector in order to prevent future bottlenecks; oil development and airlines, in view of their ability to earn or save exchange; and financial institutions, because loan proceeds flow to priority industries. In some cases commercial borrowings were part of a total project financing package, including a large concessional element.

IV. Review of Achievements so far During the Extended Arrangement

At this time, mid-way through the second year of the adjustment program, it is useful to review in a broader perspective progress achieved so far toward some of the important goals established by the program for the three years. This review is made against the background of the generally successful implementation of demand management policies and the maintenance of a stable financial environment as envisaged in the program.

1. Public savings and investment

Public sector savings, including the surpluses of public enterprises, increased sharply in 1981/82, and although savings will fall below the program target in 1982/83, they will nevertheless record a significant increase. The original program envisaged a major step-up in public savings so that the ambitious public investment program contained in the Sixth Plan, especially for key sectors, could be financed in a noninflationary manner. Central savings during the Plan period were expected to be broadly sufficient to provide the public savings component needed to finance the Central Government's investment program. For the States, it was estimated that, on the basis of measures in place, available savings would be sufficient to cover only slightly more than half the level needed to meet Plan investment levels. However, it was envisaged that the projected shortfall would be reduced as a result of intensified resource mobilization efforts over the program period. The original program recognized that " ..... actual performance of public savings from year to year will naturally be subject to the influences of exogenous factors including especially fluctuations induced by the weather" (EBS/81/198, Attachment B, paragraph 13).

Based on developments during the first two years of the Plan and current estimates for 1982/83, Central public savings have remained somewhat below the path originally envisaged (Table 10 of EBS/81/198). The shortfall amounted to about 10 per cent in 1981/82, but despite the adverse factors in 1982/83, the shortfall in the current year is projected to narrow slightly (Chart 6). Central savings would have to increase sharply to get back on track with the program projections in 1983/84. Nevertheless, the increase would be in line with that provided for in the program for 1982/83, and some recovery in savings would be expected to occur with a return of normal weather and growth. Central savings thus appear to be within striking distance of the program target. However, for the States, savings are below the program projections, and well below the level required to finance the States' Plan. Despite sizable resource mobilization efforts in both 1981/82 and the current year, progress has not been achieved in increasing State savings beyond about half the level that would be necessary to achieve the Plan target.

The authorities are at present reviewing the Sixth Plan in light of the prospective resource position, but the results of the review are not yet available. It appears that, from a low level in the first year, Central Plan expenditures increased in 1981/82 to a level only slightly below that implied by the Plan. Despite the difficulties of the current year which appear likely to require restricting expenditures below the level originally expected, the shortfall in Central Plan spending is unlikely to increase significantly in the current year. However, for the States, indications are that real Plan expenditures are further behind levels implied by the Plan, although not as severely as suggested by the shortfall in savings. The authorities have indicated that some reordering of Plan priorities will be needed in view of the likelihood that real investment expenditures will fall somewhat below target. As indicated earlier, efforts are being made to protect real investments in areas crucial to adjustment. For this reason and also because investment cost increases in oil and coal have been larger than expected, the share of resources devoted to the energy sector is likely to be higher in the Central Plan. The problem is more severe in the case of State Plans, and shortfalls now appear inevitable in electric power and irrigation.

2. Structural changes

The program provides for a reduction in the scope of regulations and restrictions in the areas of international trade, industry, and pricing, with the aim of strengthening efficiency and competitiveness. During

1981/82 and 1982/83, considerable progress has been made in reducing discouragement to exports deriving from price distortions and regulatory constraints. The 1982/83 import policy also contains significant liberalization measures which carry further the steps in this direction begun in the late 1970s, especially for industrial inputs and capital goods. Nevertheless, the basic framework of import restrictions remains largely intact: imports of items where there is domestic productive capacity are generally subject to restrictions, and imports of most finished consumer goods are not allowed. Import restrictions are supplemented by high tariffs, and effective rates of protection for many industries remain very high. In this context, changes in industrial licensing and regulatory policies have made significant contributions in some areas, but the effectiveness of future changes would be enhanced by their integration into a comprehensive program encompassing all policies bearing on industrial efficiency and competitiveness.

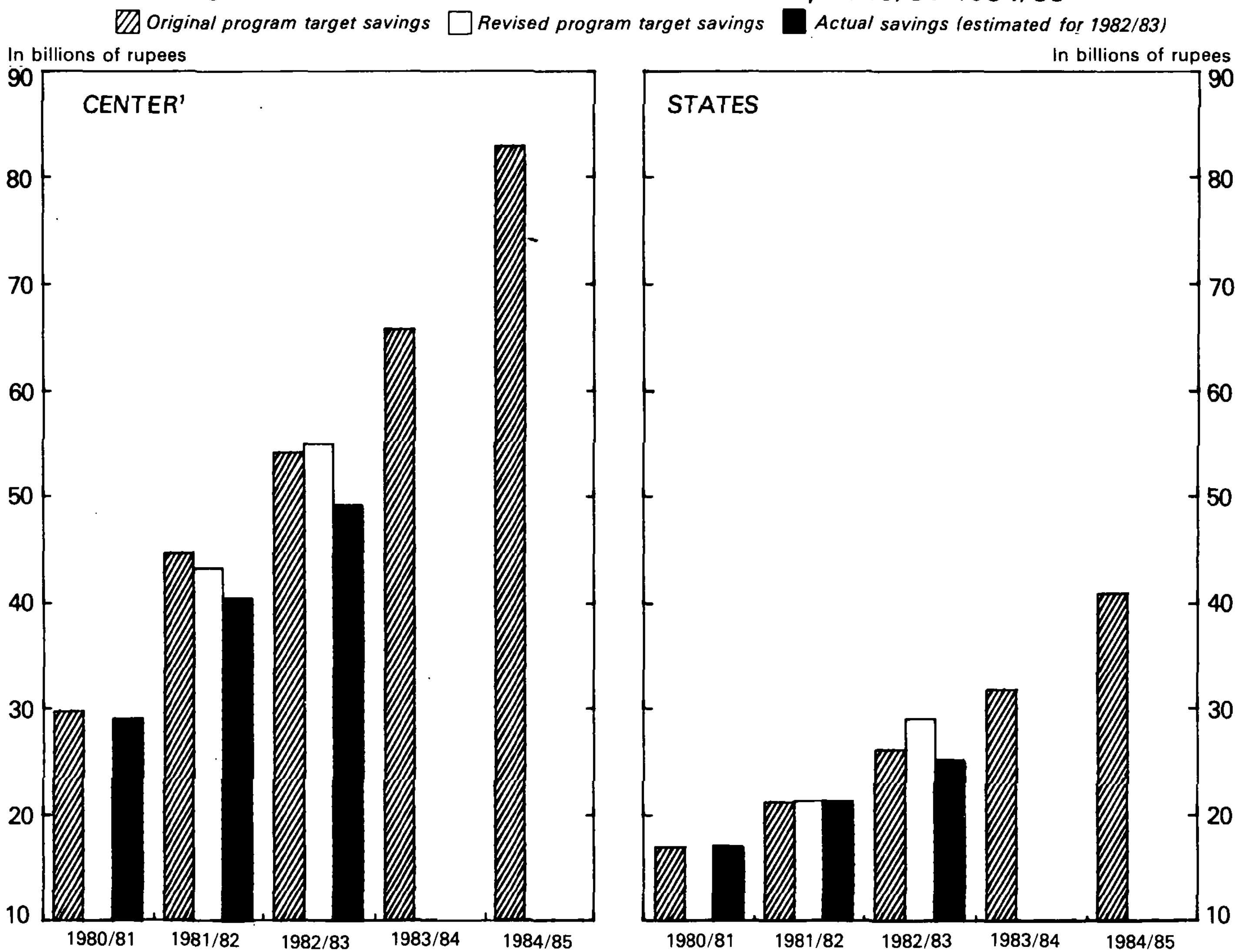
Although appropriate mechanisms for adjusting controlled prices for industrial items have long existed, they have been implemented more effectively over the past couple of years. As a result, prices for important items, including steel, coal and petroleum products have been more flexible than in the past. The scope of price controls has been reduced in 1982. Progress has been achieved toward the pricing policy objective that industry should earn adequate returns and that prices should encourage the efficient use of resources, especially in the important case of petroleum products. However, there is scope for further changes in line with these objectives, notably in the cases of electric power and coal.

3. Balance of payments adjustment

On the face of it, progress toward strengthening the balance of payments position has been slow so far. The current account deficit was 0.3 per cent of GDP higher in 1981/82 than envisaged in the program, and is estimated to again be somewhat higher than the program in 1982/83 and barely reduced from the previous year. To a considerable extent, however, the lack of progress reflects temporary adverse factors and masks underlying progress toward adjustment. In 1981/82, the terms of trade deteriorated unexpectedly, and remittances from workers abroad were reduced as a result of advance payments in the previous year. In 1982/83, the adverse international environment has hampered export performance. The balance of payments has also been affected by the drought; imports of foodgrains to compensate for reduced production are estimated to be equivalent to about 0.4 per cent of GDP.

The growth in export volumes, about 7 per cent in 1981/82 and possibly somewhat below that rate in 1982/83, stands in sharp contrast to the previous four years when export volume stagnated. Expanding export volumes at rates significantly faster than the historical norm, together with a growing level of other exchange earnings, is fundamental to the success of the adjustment program. Even with continuing increases in export earnings in line with the program targets, the ratio of debt

CHART 6
INDIA
PUBLIC SAVINGS FOR PLAN FINANCING, 1980/81-1984/85



Sources: Data provided by the Indian authorities and staff calculations.
[1]Includes Union Territories.

servicing payments to current receipts is projected to almost double to around 18 per cent by the second half of the 1980s before turning downward later as the heavy servicing burden of the EFF debt is completed (Chart 7). The increase in the debt servicing burden reflects the hardening terms of new borrowing, and outstanding debt as a proportion of GDP is expected to remain essentially unchanged during the 1980s.

Underlying progress toward adjustment can be seen in other areas as well. Import replacement of items where India is an efficient producer is being achieved. The most notable case is oil. Oil imports in 1982/83 are expected to be lower by as much as 25 per cent from the level two years earlier, reflecting a doubling of domestic oil production with the development of new oil fields which substantially exceeds a 15 per cent increase in oil consumption over this period. The original program envisaged that the proportion of petroleum requirements met from imports would decline from 70 per cent in 1980/81 to 47 per cent by 1984/85. It now appears that this objective will be exceeded because of acceleration in domestic production and a greater than expected impact of higher prices on consumption. Another important area of import replacement is nitrogenous fertilizers, where production is estimated to increase by about two thirds over the course of 1981/82 and the current year, and as a result, imports should decline in the coming years. Taking all these developments into account, and allowing for sizable increases in imports of items other than bulk items because of steps to liberalize imports, further reductions in the current account deficit of the balance of payments to 2.1 per cent of GDP in 1983/84 and 1.8 per cent in 1984/85 as projected in the program appear feasible, provided that the program targets on public savings and exports are achieved.

V. Staff Appraisal 1/

Economic growth is likely to be reduced to about 2 per cent in 1982/83, less than half that originally expected. Lower growth is due mainly to the impact of adverse weather during the 1982 monsoon season on agriculture. In addition, industrial expansion has slowed noticeably, and some industries have experienced recessionary conditions. Despite the tighter supply position, inflation so far has remained under control. Financial policies have generally been restrictive over the past year, and until recently monetary growth was slower than envisaged in the program. Balance of payments developments have been broadly in line with the program estimates, and despite drought-related imports, significant import liberalization, and sluggish export demand, the overall deficit is expected to be reduced during the current year.

The authorities moved quickly and skillfully to contain the spurt in inflation which accompanied the drought. The timely announcement of cautionary grain imports and other steps to underpin confidence in the public distribution of essential items of consumption helped to dampen

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1/ Including views of the World Bank staff.

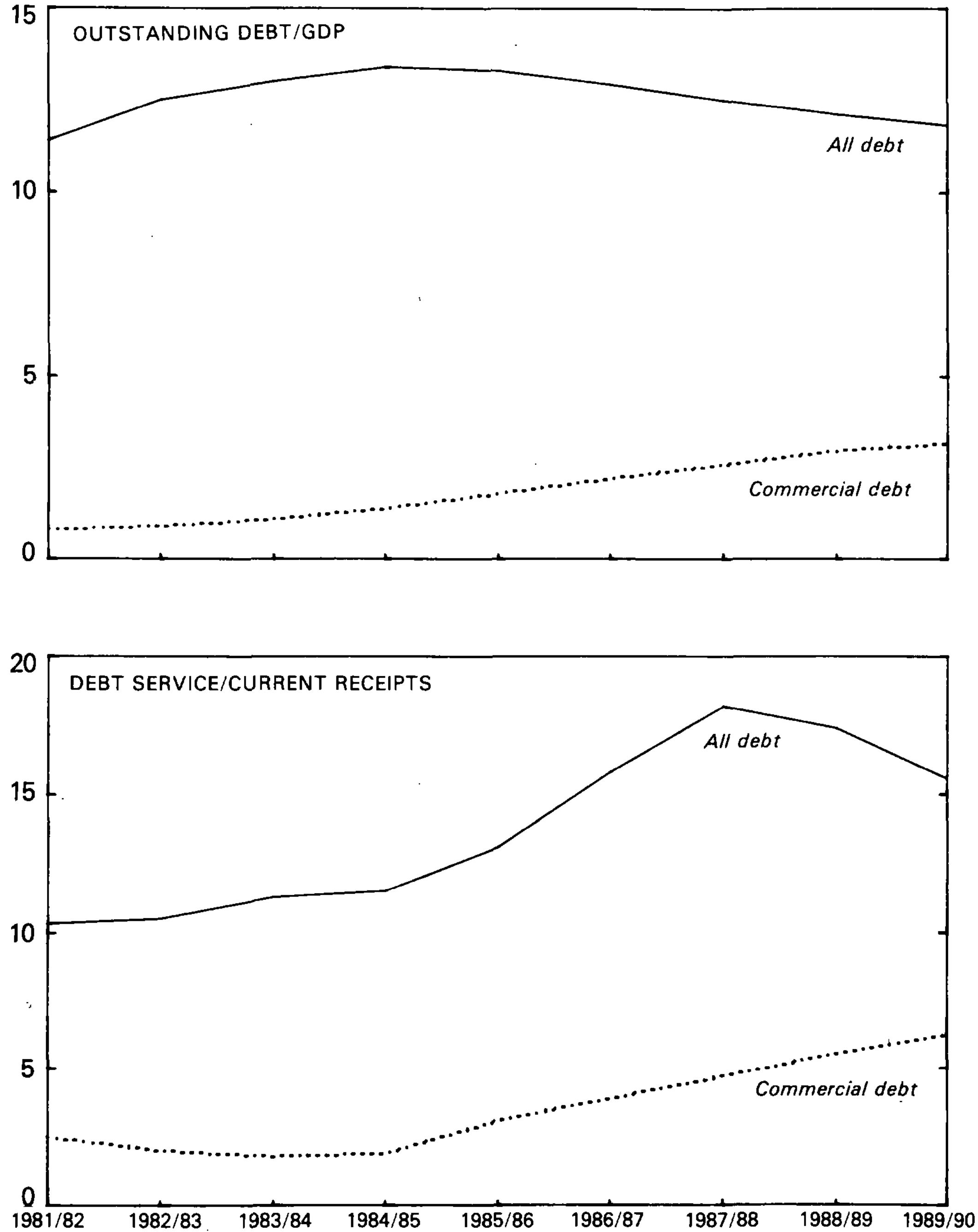
price expectations and hoarding. The impact of the drought was also cushioned by the sizable stocks of many essential items replenished during the economic upswing which began in mid-1980, the good performance of industries supplying basic goods and infrastructure, and liberal import policies. There can be no doubt, however, that the tight monetary conditions which ruled during the first half of 1982 were also a crucial and, perhaps, fortuitous factor.

The impact of restrictive credit policies introduced in 1981 was somewhat stronger than expected and, when followed by a cautious approach to lending by the banks, resulted in stringent credit conditions which no doubt contributed to weak demand conditions in several industries about which there has been public complaint. The credit squeeze has now ended and credit developments are again more closely in line with the program. *It is most appropriate that the authorities maintain their* present cautious credit policy, especially in view of the possibility that special additional credit needs may arise later in the year. The potential for the emergence of inflationary pressures has by no means ended. Price developments must be carefully watched and monetary policies adapted flexibly if the outlook for inflation becomes unsettled. The recent increase in interest rates on long-term bank deposits is a welcome change in the right direction.

It is inevitable that the setback to incomes in 1982/83 would result in some difficulty for the adjustment effort. The impact is seen clearly in the area of public finances where budget revenues are sluggish, surpluses of public enterprises are weak, and additional government expenditures have been incurred to soften the impact of adverse weather on living standards of those most affected. However, insufficient adjustments of prices of goods and services provided by the public sector and higher fertilizer subsidies have contributed to the savings shortfall. It is important that the understandable difficulties in the current year not be allowed to set back progress to adjustment in the medium term, particularly the achievement of the target on public savings set for 1983/84. For this reason, the efforts the authorities are making to close the prospective budgetary gap must be pursued vigorously. Even if they are successful and the ceilings on credit to Government are observed, additional cuts in public investment expenditures will be necessary. Cuts in investment spending are necessary because public savings are likely to be well below target, even though considerably increased from last year. The shortfall presents the Central sector with a major challenge if the medium-term savings target is to be achieved, and it appears inevitable that State savings will continue to be well below those envisaged in the Plan. The importance of additional resource mobilization measures at both Central and State levels can hardly be overemphasized. Resolute and timely policies are needed if the momentum toward a sustained strengthening of public finances is to be maintained, and the steps the authorities have taken recently toward increasing revenues should be extended to include necessary price adjustments and steps to contain subsidies.

CHART 7
INDIA
EXTERNAL DEBT PROFILE, 1981-89

(In per cent)



Source: Data provided by the Indian authorities; and staff projections.

Against these difficulties, progress in implementing the investment program has been good in most areas. The oil development effort is proceeding close to the accelerated program, and coal production is expanding strongly. After considerable shortfalls in the last two years, additions to power generating capacity in 1982/83 are likely to be considerably higher. Efforts to improve efficiency have also paid off in increased utilization of existing capacity. However, power shortages continue to impede activity in some areas and could become more severe if hydrogeneration falls as a result of the drought. The supply of power continues to represent the single most important and pervasive infrastructural constraint facing the economy, and every effort must be made to meet the capacity expansion targets in coming years. The recent decision to proceed with large Central sector thermal power projects using foreign resources appears to be a useful initiative to augment domestic efforts. While progress has been made in project implementation, limited finances are emerging as an increasingly important constraint. In the railways, improved management, operational rationalization and increased investments have paid off in strong performance which has alleviated concerns that transportation bottlenecks would arise to hinder the adjustment effort. The authorities' mid-term review of the Plan is not yet complete, but it is evident that adjustments have already been made during the first three years of the Plan to protect investment allocations in some key sectors, notably oil, coal, and the railways. In contrast, investment allocations for power, irrigation, and fertilizer are falling well behind schedule. In some cases, and fertilizer appears to be one, such allocations reflect a pragmatic response to evolving circumstances. But especially in power and irrigation, recent developments underscore the crucial importance, in a medium-term context, of steps to mobilize additional resources and savings for investment in support of a stronger economy.

The evolution of the industrial sector along increasingly competitive and efficient lines is a means both to lift the economy to a faster path to development and assist the balance of payments. It appears that the import liberalization measures introduced in 1982/83 are having the effect intended; access to imports has risen considerably and measures to simplify procedures are working well. Further steps along these lines would have beneficial effects in the medium term. Import liberalization should be matched by an active tariff policy which takes a comprehensive view of industrial protection and recognizes the potential budgetary revenue gains which emerge as quantitative import restrictions are relaxed. Domestic industry is feeling increased pressure from foreign competition, although in several cases this reflects the intensely competitive search for markets which is a feature of the present world trading situation rather than the direct impact of measures taken this year. In the face of public complaint, the authorities' persistence with their course, while considering each industry's position on a case-by-case basis, is both appropriate and courageous. Policies to bring about industrial restructuring, by their nature, cannot be painless. But the difficulties experienced by some in this process, which may be transitory, should not stand in the way of the larger benefits which accrue to other sectors of society and the economy as a whole. At the same time, industry must be allowed to make new investments and have access to new technology if it is to be efficient and competitive. Industrial policy has been liberalized over recent years, especially for investment in export industries, but scope remains to simplify and reduce the coverage of industrial regulations. There is a need to develop and follow a comprehensive strategy for further steps in this direction so as to derive the full benefit from more open trading policies. Administered prices should also be reviewed regularly, and the successful implementation of recent measures in this area should encourage greater flexibility in the system of controlled prices at large.

Despite the adverse developments in 1982/83, the current account deficit is projected to show virtually no increase in 1982/83 and to fall somewhat as a proportion of GDP, while the overall deficit is estimated to be reduced, as was envisaged in the program, to about SDR 1.7 billion. The balance of payments position would have been stronger over the past 18 months except for sizable capital outflows associated with large exports covered by bilateral payments agreements. It is to be hoped that the authorities' plans to limit such outflows in the current year through needed imports at competitive prices are successful; the staff believes that in the future India should rely less on bilateral payments agreements. Following an encouraging export performance last year, export developments have continued to be favorable in early 1982/83. Provisional data for the first five months suggest that export volume expanded at a rate of about 5 per cent, somewhat below the target of 7 per cent for the year as a whole which was set when the prospects for trade were more favorable. This export performance is creditable, all the more so because it is achieved in a very unfavorable world trading climate. This suggests that the export development measures adopted over recent years are yielding results, although their full effect can only be expected with a lag. The improvement in export competitiveness achieved as a result of the effective implementation of exchange rate policy in 1981/82 was partly reversed in early 1982/83, but recent developments have been in the right direction. Wide fluctuations in exchange rates for major currencies, combined with cost and price developments, can quickly result in noticeable shifts in the competitive position of export industries. The authorities should continue to monitor exchange rate policy closely, while recognizing that a competitive export position is essential.

In summary, economic performance in 1982/83 will fall short of the achievements in 1981/82 and those projected at the time the program for the current year was prepared. Periodic major setbacks because of weather are a recurrent and inevitable feature of India's economy to which economic management must adapt. By and large, the economy is withstanding the present difficulties well, especially in the areas of prices and the balance of payments. However, the adjustment effort has had to bear some of the burden, especially in the field of public finances.

Overall, the policy responses of the authorities have been appropriate, and if followed with resolute efforts in support of adjustment in the period ahead, the setback in the current year need not prejudice the achievement of the overall objectives of the program.

VI. Proposed Decisions

The following draft decision concluding the 1983 Article IV consultation with India is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to India's exchange measures subject to Article VIII, Section 2, and in concluding the 1983 Article XIV consultation with India, in the light of the 1983 Article IV consultation with India conducted under Decision No. 5392 - (77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions described in SM/83/... are maintained by India in accordance with Article XIV, except that the restriction arising under the remaining bilateral payments agreement with a Fund member is subject to approval under Article VIII, Section 2. The Fund encourages the authorities to terminate the bilateral payments agreement with a Fund member as soon as possible and to further simplify the exchange system.

The following draft decision is proposed for adoption by the Executive Board upon completion of the review of the extended arrangement for India:

The Fund and India have completed the reviews contemplated in paragraph 3(c) of the decision on the program for the second year of the extended arrangement for India (EBS/82/102) and in paragraph 3 of the letter dated June 8, 1982, attached thereto. No new understandings with the Fund are necessary regarding circumstances in which purchases may be made by India under the extended arrangement until June 30, 1983.

India: Fund Relations
(As of November 30, 1982)

Date of membership:	December 27, 1945.
Status:	Article XIV.
Quota:	SDR 1,717.5 million.
Fund holdings of rupees:	SDR 3,419.3 million (199.1 per cent of quota), including compensatory financing purchases of SDR 266 million (15.5 per cent), and purchases of SDR 900 million (52.4 per cent) under the extended arrangement. Excluding purchases under the Compensatory Financing Facility, Fund's holdings were SDR 3,153.3 million (183.6 per cent of quota).
SDR position:	Holdings amounted to SDR 339.4 million, or 49.8 per cent of net cumulative allocation of SDR 681.2 million.
Trust Fund loan disbursements:	SDR 529.0 million.
Direct distribution of profits from gold sales, July 1, 1976-July 31, 1980:	US$149.3 million.
Gold (from distribution):	804,429.4 fine ounces.
Exchange system:	Linked to a basket of currencies within 5 per cent margins. The current middle rate as of December 1, 1982 is Rs 15.75 = pound sterling 1.
Last Article IV consultation:	Article IV consultation and EFF review discussions were held during January 13-27, 1982. The staff report (EBS/82/44, 3/18/82) was discussed by the Board on April 15, 1982, and the following decisions No. 7092 - (82/49) and No. 7093 - (82/49) were adopted: 1. The Fund takes this decision relating to India's exchange measures subject to Article VIII, Section 2, and in concluding the 1982 Article XIV consultation with India

(continued)

India: Fund Relations (Concluded)
(As of November 30, 1982)

in the light of the 1982 Article IV consultation with India conducted under Decision No. 5392 - (77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions described in SM/82/58 are maintained by India in accordance with Article XIV, except that the restriction arising under the remaining bilateral payments agreement with a Fund member is subject to approval under Article VIII, Section 2. The Fund encourages the authorities to terminate the bilateral payments agreement with a Fund member and to liberalize and simplify the complex exchange system as soon as possible.

3. The Fund and India have completed the reviews contemplated in paragraph 4(b) of the extended arrangement for India (EBS/81/198, Supplement 3 (11/13/81) and Supplement 4 (2/24/82) and in paragraph 5 of the letter dated September 28, 1981, attached thereto. No new understandings with the Fund are necessary regarding circumstances in which purchases may be made by India until June 30, 1982.

Last Executive Board discussion of the extended arrangement: Discussion of the program for the second year (EBS/82/102, 6/11/82) was held on July 9, 1982.

India--Financial Relations with World Bank Group
(As of November 30, 1982)

IBRD/IDA Lending Operations	(In millions of U.S. dollars)		
	IBRD	IDA	Total
Loans/credits fully disbursed	1,568.0	4,352.4	5,920.4
Present commitments 1/			
Agriculture	424.3	2,884.6	3,308.9
Power	784.5	1,749.2	2,533.7
Energy	565.5		565.5
Industry	693.5	449.8	1,143.3
Transportation	225.0	474.4	699.4
Water supply and sewerage		470.4	470.4
Telecommunication	200.0	270.7	470.7
Other		235.8	235.8
Subtotal	2,892.8	6,534.9	9,427.7
Total fully disbursed and present commitments	4,460.8	10,887.4	15,348.2
Repayments	1,177.6	106.7	1,284.3
Total now held by Bank	3,283.2	10,780.7	14,063.9
Total undisbursed (excluding loans and credits not yet effective)	1,590.3	4,173.2	5,763.5
IFC investment now held 2/			130.1

1/ Includes effective loans and credits and those approved as of November 30, 1982.
2/ As of September 30, 1982.

India

Basic Data 1/

Area:	3.27 million sq. kms.
Population:	694 million (1981/82)
Annual rate of population increase:	2.3 per cent
Quota:	SDR 1,717.5 million
Outstanding purchases:	SDR 2,066 million (CFF: SDR 266 million and EFF: SDR 1,800 million) as of end-November 1982
Fund holdings of Indian rupees:	199.1 per cent of quota, as of end-November 1982
SDR holdings:	SDR 339.4 million, or 49.8 per cent of net cumulative allocation as of end-November 1982
Exchange rate:	Linked to a basket of currencies within 5 per cent margins. The current middle rate as of December 1, 1982 is Rs 15.75 = pound sterling 1
Net national product (1981/82) (at factor cost):	SDR 114.1 billion (Rs 1,175.2 billion)
NNP per capita (1981/82):	SDR 164

	Percentage of GDP 2/					
	1977/78	1978/79	1979/80	1980/81	1981/82 3/	1982/83 4/
Exports of goods	6.0	5.7	5.8	5.3	5.3	...
Imports of goods	6.1	7.6	9.0	10.0	9.4	...
Foreign aid (net)	0.8	0.7	0.7	1.3	0.9	...
Total tax revenues 5/	14.7	15.9	16.7	15.8	16.7	17.7
Total government expenditures 5/	29.0	28.4	29.4	29.8	30.8	31.7
Gross domestic savings	25.5	24.5	22.4	22.2	22.9	22.6
Gross domestic capital formation	22.3	24.6	22.9	24.1	25.2	24.8
Broad money (money plus quasi-money)	41.2	41.9	46.1	40.7	41.4	43.4

(Continued)

India

Basic Data (Concluded)

Annual Percentage Changes in Selected Economic Indicators

	1977/78	1978/79	1979/80	1980/81	1981/82 3/	1982/83 4/
Real NNP 6/	8.6	5.1	-5.4	7.7	4.7	...
Real NNP per capita 6/	6.0	2.5	-7.5	5.3	2.3	...
NNP at current prices 6/	13.0	6.7	7.7	19.4	12.8	...
Agricultural production	14.0	3.8	-14.9	15.4	2.8	...
Foodgrain production 7/	13.7	3.9	-16.8	18.4	2.5	...
Industrial production	3.3	7.6	-1.4	4.0	8.6	6.1 8/
Total tax revenues	7.4	17.3	13.8	12.2	20.4	15.4
Total government revenues and grants	8.6	16.6	12.9	9.0	22.0	18.6
Total government expenditures	10.6	17.6	12.7	20.0	17.0	12.6
Money	17.8	19.7	15.8	16.3	7.3	11.9 9/
Quasi-money	24.4	22.2	18.6	20.1	16.7	14.2 9/
Broad money	20.6	21.1	17.4	18.5	12.8	13.3 9/
Bank credit to commercial sector	14.7	19.5	20.8	18.4	18.4	16.4 9/
Bank credit to Government	22.2	18.3	23.8	29.1	19.1	21.6 9/
Exports of goods in SDRs	7.3	-0.6	11.1	9.7	13.3	7.2 8/
Imports of goods in SDRs	11.0	29.9	28.9	34.8	5.2	6.6 8/
Wholesale price index (period average)	5.2	--	17.1	18.2	9.2	1.4 10/
Consumer price index (period average)	7.6	2.2	8.8	11.4	12.5	7.1 11/
Trade-weighted effective exchange rate 12/ (period average)	-1.0	-5.1	1.7	0.2	-4.3	-3.3 10/

1/ Data relate to fiscal year April 1-March 31.
2/ At current market prices.
3/ Provisional.
4/ Preliminary estimates.
5/ Central and State Governments.
6/ At factor cost.
7/ Agricultural season, July-June.
8/ Percentage change during April-June over the corresponding period a year earlier.
9/ 12-month percentage change at end-September 1982.
10/ Percentage change during April-September over the corresponding period a year earlier.
11/ Percentage change during April-August over the corresponding period a year earlier.
12/ The minus sign indicates depreciation of the rupee.