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AGENDA

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Supplement 1

CONFIDENTIAL

February 17, 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

The attached supplement to the staff report for the 1983 Article IV consultation with India and the review of the extended arrangement for India has been prepared on the basis of additional information.

Att: (1)

INTERNATIONAL MONETARY FUND

INDIA

Staff Report for the 1983 Article IV Consultation and Review
of the Extended Arrangement--Supplementary Information

Approved by Tun Thin and Donald K. Palmer

February 17, 1983

Certain additional information has become available since the staff papers on the 1983 Article IV consultations and review of the extended arrangement with India (EBS/83/16 and SM/83/28) were prepared.

1. Economic update

Inflation has continued at a low rate. Wholesale prices in December 1982 were only 2.8 per cent higher than a year earlier, and inflation returned to a rate of about 2 per cent in early February 1983. The staff estimates that the 12-monthly rate of increase in wholesale prices could rise somewhat in the final quarter of 1982/83, reflecting an unusual decline in prices at the end of 1981/82. However, it now seems likely that the increase in wholesale prices over the course of 1982/83 will be much less than the program projection of 8 per cent.

International reserves at end-December 1982 were SDR 4.2 billion (including gold holdings of SDR 0.3 billion valued at SDR 35 per ounce). Taking account of purchases from the Fund under the extended arrangement, the overall balance of payments deficit during the first three quarters of 1982/83 amounted to SDR 1.3 billion, broadly in line with the program projection of SDR 1.7 billion for the year as a whole.

The rupee has continued to depreciate in effective terms over recent months. During November 1982 to January 1983, the nominal effective depreciation amounted to 5.0 per cent, while India's prices relative to those of trading partners were broadly unchanged. As a result, the deterioration during early 1982/83 in India's competitive position, as measured by the real effective exchange rate, has been reversed; the competitive position is now estimated to have improved by about 1 per cent during the first ten months of 1982/83 and 6 per cent since the beginning of 1981/82.

2. Performance criteria

The performance criteria for December 1982 were observed. Details of monetary developments up to December 1982 are given in Table 1. Net credit to Government fell significantly in December to a level Rs 3.6 billion below the ceiling. Although credit to the commercial sector again expanded considerably in December, it continued to remain well below the program path. As a result, total domestic credit in

Table 1. India: Monetary Survey, 1982-83 1/

(In billions of rupees)

	1982						1983	
	March		June	September		December		March
	Program	Actual	Actual	Program	Actual <u>2/</u>	Program	Actual <u>2/</u>	Program
Domestic credit	<u>741.8</u> <u>3/</u>	<u>738.7</u>	<u>769.6</u>	<u>807.3</u> <u>3/</u>	<u>788.3</u>	<u>856.6</u> <u>3/</u>	<u>837.8</u>	<u>876.8</u> <u>3/</u>
	(19)	(19)	(18)	(21)	(19)	(22)	(19)	(19)
Net credit to Govern- ment	<u>309.8</u> <u>4/</u>	<u>309.0</u>	<u>333.5</u>	<u>339.5</u> <u>4/</u>	<u>336.3</u>	<u>350.6</u> <u>4/</u>	<u>347.0</u>	<u>364.5</u> <u>4/</u>
	(20)	(19)	(21)	(23)	(22)	(23)	(22)	(18)
Credit to commercial sector	<u>432.0</u>	<u>429.7</u>	<u>436.1</u>	<u>467.8</u>	<u>452.0</u>	<u>506.0</u>	<u>490.8</u>	<u>512.3</u>
	(19)	(18)	(16)	(21)	(16)	(21)	(17)	(19)
Net foreign assets	<u>30.1</u>	<u>26.6</u>	<u>23.9</u>	<u>16.9</u>	<u>16.2</u>	<u>12.1</u>	<u>14.0</u>	<u>9.0</u>
Broad money	<u>639.9</u>	<u>625.3</u>	<u>652.8</u>	<u>681.0</u>	<u>666.4</u>	<u>716.8</u>	<u>714.0</u>	<u>724.1</u>
	(16)	(13)	(12)	(16)	(13)	(16)	(16)	(16)
Narrow money	<u>259.0</u>	<u>249.0</u>	<u>263.6</u>	<u>262.8</u>	<u>257.2</u>	<u>277.3</u>	<u>279.6</u>	<u>282.1</u>
	(11)	(7)	(10)	(14)	(12)	(13)	(14)	(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 SM/83/28).

3/ Ceiling.

4/ Subceiling.

December was Rs 18.8 billion (2 per cent) below the ceiling. Following the trend in evidence since mid-1982, growth rates of both narrow and broad money rose somewhat further in December. Narrow money rose by 14 per cent and broad money by 16 per cent in 1982; both were close to the program projections for December 1982.

Commitments of nonconcessional external loans subject to the ceiling of SDR 1.4 billion for the 1 to 12-year maturity range amounted to SDR 530.7 million in the period up to December 1982; those subject to the subceiling of SDR 0.2 billion for 1 to 5-year maturities amounted to SDR 103.1 million. The former amount does not include a loan of SDR 516.0 million to finance the Rihand Power Project, for which the program provided for an automatic upward adjustment of the ceiling by up to SDR 0.8 billion.

3. Additional resource mobilization

The authorities have very recently announced increases in consumer prices for petroleum products. The increases are estimated to yield additional public sector resources totaling Rs 8 billion in a full year, of which Rs 5 billion would accrue to the Central Government budget. The authorities estimate that the yield in the remainder of 1982/83 would be about Rs 1 billion. The staff believes the increase in petroleum prices is an appropriate measure which will promote efficient resource allocation and external adjustment. In conjunction with the measures introduced in November and December 1982 (EBS/83/16, p. 12), this will assist the authorities in their efforts to remain within the ceiling on net credit to Government for March 1983. In total, measures taken since the end of November 1982 are estimated to yield additional public sector resources of about Rs 12.5 billion in 1983/84 and should contribute importantly to increasing public sector savings in 1983/84 following the estimated shortfall from the program target in 1982/83.