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December 30, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: India - Staff Report for the 1984 Article IV Consultation and Review of the Extended Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with India and review of the extended arrangement. Draft decisions appear on page 39.

This subject has been tentatively scheduled for discussion on Friday, January 27, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Bruce Smith, ext. (5)7301 or Mr. Baumgartner, ext. (5)7307.

Att: (1)

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INTERNATIONAL MONETARY FUND

INDIA

# Staff Report for the 1984 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

December 29, 1983

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1/ Under normal practice, this would be considered as the 1983 Article IV consultation. It is attributed to 1984 in this case because the last Article IV consultation discussions were held in November 1982 and the Board concluded the 1983 Article IV consultation on February 13, 1983.

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## I. Introduction

A staff mission visited New Delhi and Bombay during October 20-November 4, 1983 to hold the 1984 Article IV consultation discussions and review progress in implementing the program for 1983/84 (fiscal year ending March) under the extended arrangement. Discussions were held with Indian officials, including Messrs. P.K. Kaul, Finance Secretary and Bimal Jalan, Special Secretary and Chief Economic Adviser, Department of Economic Affairs; and Messrs. Manmohan Singh, Governor, and V.B. Kadam, Executive Director, Reserve Bank of India. The staff representatives were Messrs. Smith, Baumgartner, and Burton (all ASD), Ms. Kelly (ETR), Messrs. Heller (FAD) and Harrison (World Bank), and Ms. Avvakoum (ETR, secretary). Mr. Malhotra attended as an observer.

The three-year SDR 5 billion extended arrangement (291 percent of old quota) approved on November 9, 1981, falls within the four fiscal years 1981/82 to 1984/85. All the performance criteria relating to the programs for 1981/82 and 1982/83 were observed and all scheduled purchases, totaling SDR 2.7 billion, were made. The program for 1983/84 was approved by Executive Directors on July 22, 1983. A total of SDR 1.2 billion was scheduled for purchase under the 1983/84 program, of which SDR 0.6 billion has already been purchased. A further purchase of SDR 0.4 billion becomes available after January 29, 1984 upon completion of the present review and observance of the performance criteria for December 1983. The final purchase for 1983/84 (SDR 0.2 billion) becomes available after April 29, 1984 upon observance of the performance criteria for March 1984. Assuming all these purchases are made, SDR 1.1 billion out of the total of SDR 5 billion would remain at the end of the 1983/84 program. Discussions of a possible program for 1984/85 up until the end of the arrangement in November 1984 are envisaged in April 1984; the staff would in due course present a paper for Board consideration covering further understandings and the amount of purchases to be made out of the remaining amount.

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

## II. Background to the Discussions

The extended arrangement is in support of a medium-term adjustment program directed toward overcoming balance of payments difficulties which emerged with a large adverse shift in the terms of trade associated with the second oil crisis and other factors. The program, which is described in EBS/81/198, envisages a balanced combination of policies, including steps to control aggregate demand and encourage expanded supplies, especially in basic industrial goods and infrastructure; measures to increase savings, especially in the public sector; efforts to increase efficiency by reducing the scope of industrial and trade restrictions; and policies to promote export development, and import replacement (especially in energy).

1. Recent developments

Performance during 1981/82 and 1982/83, the first two program years, was generally favorable and closely in line with the program track. The economy expanded briskly in 1981/82 and began to respond to a wide range of adjustment measures introduced at the start of the program, including those in the areas of resource mobilization, demand management, and trade and industrial restrictions. The thrust of adjustment policies was continued in the program for 1982/83 with measures to raise additional resources and increase savings, and further industrial and trade liberalization. However, severe drought, coupled with the world recession, slowed growth sharply in 1982/83 and necessitated a strengthening of policies during the course of the year in order to maintain the momentum of the adjustment effort.

Growth in real GDP fell to 2 percent in 1982/83, down from 5.2 percent in 1981/82 and well below the program target of 5 percent (Table 1). Much of the fall was due to reduced foodgrain production, and agricultural incomes declined by 2 percent. Largely reflecting this, private sector savings and investment rates, and those for the economy as a whole, declined somewhat. Industrial growth was also lower at 4 percent compared with 6 percent in 1981/82. The industrial slowdown reflected a combination of factors, including the impact of the world recession, tight monetary conditions, and a major textile strike. However, supplies of most basic industrial goods and infrastructure increased, and the incidence of bottlenecks did not become severe.

The drought and lower industrial growth adversely affected public finances, reducing revenues and creating demands for additional expenditures, including disaster relief. Added to this, there were higher than expected expenditures for fertilizer subsidies and bilateral trade financing. The authorities reacted quickly to the emerging budgetary problem. They introduced several measures to mobilize resources during the second half of the year, including higher auxiliary import duties and petroleum prices, and contained some expenditures, especially capital spending, to less than budgeted amounts. As events turned out, Central Government budget revenues rose by 14 percent, slightly more than expected in the program, while expenditures increased by 17 percent, an increase over the program provision equivalent to 0.8 percent of GDP.

The overall budget deficit rose from 5.8 percent of GDP in 1981/82 to 6.8 percent in 1982/83. However, the unplanned increase in the deficit was more than offset by sharply higher domestic nonbank borrowing, including contributions to small savings schemes and government

Table 1. India: Selected Economic and Financial Indicators, 1981/82-1983/84

| | 1981/82 | | 1982/83 | | | 1983/84 | | |
|---|---|---|---|---|---|---|---|---|
| | Program | Actual | Original program | Program | Revised estimate | Original program | Program | Revised estimate |
| | | | | (Annual percent changes) | | | | |
| National income and prices | | | | | | | | |
| GDP at constant prices | 4.8 | 5.2 | 4.8 | 5.0 | 2.0 | 4.8 | 6.0-6.5 | 6.0-6.5 |
| GDP deflator | 9.0 | 8.7 | 8.5 | 8.5 | 3.5 | 8.0 | 7.0 | 7.5 |
| Wholesale prices 1/ | 11.0 | 2.6 | 9.0 | 8.0 | 6.2 | 8.0 | 7.0 | 8.0 |
| Consumer prices 2/ | ... | 12.5 | ... | ... | 7.7 | ... | 7.0 | 12.0 |
| External sector (on the basis of SDRs) | | | | | | | | |
| Exports, f.o.b. 3/ | 16.2 | 13.0 | 16.1 | 11.9 | 0.5 | 16.6 | 7.2 | 5.1 |
| Imports, c.i.f. 3/ | 12.4 | 7.4 | 12.0 | 3.9 | -3.7 | 15.7 | 3.8 | 2.4 |
| Non-oil imports, c.i.f. | 29.8 | 17.6 | 19.0 | 11.2 | 1.6 | 16.5 | 14.2 | 11.5 |
| Export volume | 5 | 6 | 7 | 7 | -3 | 8 | 5 | 2 |
| Import volume | 3 | -3 | 2.7 | -1 | -5 | 6.5 | 4 | -1 |
| Terms of trade (deterioration -) | -- | -4.1 | -0.6 | -- | 0.9 | -0.6 | 3.2 | 2.6 |
| Nominal effective exchange rate (depreciation -) 1/ | ... | -2.9 | ... | ... | -3.6 | ... | ... | -2.6 4/ |
| Real effective exchange rate (depreciation -) 1/ | ... | -4.7 | ... | ... | 1.2 | ... | ... | 1.7 5/ |
| Central Government budget | | | | | | | | |
| Revenue and grants | 16.8 | 21.4 | ... | 13.0 | 14.1 | ... | 15.5 | 17.2 |
| Total expenditure and net lending | 15.5 | 14.2 | ... | 12.0 | 17.3 | ... | 13.0 | 18.1 |
| Money and credit 6/ | | | | | | | | |
| Domestic credit | 19.4 | 18.9 | 18.3 | 18.6 | 17.4 | 17.4 | 17.8 | 17.8 |
| Government | 20.1 | 19.1 | 17.6 | 17.9 | 14.9 | 16.3 | 17.3 | 17.3 |
| Commercial sector | 18.9 | 18.7 | 18.9 | 19.0 | 19.3 | 18.1 | 18.1 | 18.1 |
| Money and quasi-money (M3) | 15.7 | 12.7 | 14.5 | 15.9 | 15.8 | 14.0 | 15.0 | 15.0 |
| Narrow money | 11.3 | 6.8 | 11.0 | 13.8 | 14.6 | 11.0 | 12.0 | 12.0 |
| Interest rate (annual rate, five-year savings deposit) | 10.0 | 10.0 | ... | 10.0 | 11.0 | ... | 11.0 | 11.0 |
| | | | | (In percent of GDP) | | | | |
| Public sector savings | 4.4 | 4.3 | 4.8 | 5.0 | 4.9 | 5.2 6/ | 5.4 | 5.6 |
| Central public sector savings | 2.9 | 2.8 | 3.2 | 3.3 | 3.3 | 3.5 6/ | 3.5 | 3.9 |
| Central Government budget deficit | 6.4 | 5.8 | 6.6 | 5.6 | 6.8 | 6.8 | 6.5 | 7.1 |
| Domestic bank financing | 3.1 | 2.7 | 3.0 | 2.8 | 2.2 | 2.9 | 2.9 | 2.9 |
| Foreign financing | 0.9 | 0.7 | 1.0 | 0.7 | 0.9 | ... | 0.9 | 0.9 |
| Gross capital formation | 25.7 | 25.3 | 26.1 | 25.5 | 24.7 | 26.5 | 26.4 | 26.5 |
| Gross domestic savings | 23.7 | 23.3 | 24.1 | 23.4 | 22.7 | 24.3 | 24.3 | 24.6 |
| Current account deficit | 2.0 | 2.0 | 2.0 | 2.1 | 2.0 | 2.2 | 2.1 | 1.9 |
| External debt 7/ (inclusive of use of Fund credit) | 11.2 | 12.2 | 11.7 | 12.0 | 14.7 | 14.5 | 14.4 | 14.7 |
| Debt service ratio 8/9/ | 8.5 | 9.7 | 9.2 | 11.0 | 12.3 | 9.9 | 13.8 | 14.4 |
| Interest payments 8/9/ | 3.1 | 3.5 | 4.2 | 4.3 | 5.7 | 5.2 | 7.1 | 6.8 |
| Overall balance of payments (SDRs mn.) | -1,683 | -2,175 | -2,024 | -1,683 | -1,280 | -2,655 | -1,497 | -1,075 |
| Gross official reserves (months of imports) | 5 | 4 | 3 | 4 | 5 | 3 | 4 | 4 |
| External payments arrears | -- | -- | -- | -- | -- | -- | -- | -- |

1/ End-year percentage change.
2/ Annual average percentage change.
3/ Net of oil exports.
4/ November 1983 over March 1983.
5/ October 1983 over March 1983, seasonally adjusted.
6/ Including subsequent minor refinements to the statistical definition of savings.
7/ End of period.
8/ In percent of current receipts.
9/ Including IMF.

borrowing from the oil sector. Such nonbank borrowing, which amounted to 2.5 percent of GDP in 1981/82, rose to 3.5 percent in 1982/83. Net external financing was also higher than expected. As a result, bank financing of the deficit was limited to Rs 34 billion, less than in 1981/82 and considerably below the program projection. Bank financing of State Governments was also reduced somewhat from the previous year. Overall, net bank credit to Government increased by Rs 46.1 billion in 1982/83, well within the program ceiling increase of Rs 55.5 billion. Budgetary savings fell short of the program estimate because of the unplanned increases in current expenditure, but internal resource generation by public enterprises rose sharply as a result of resource mobilization efforts and gains from weak oil prices that were not passed on to consumers. Total public savings amounted to 4.9 percent of GDP, short of the target of 5.0 percent, but up sharply from 3.6 percent and 4.3 percent in the previous two years.

Credit expansion remained within the ceilings established in the financial program throughout 1982/83, and both the money supply (15 percent) and broad money (16 percent) rose in line with the program projection. Generally subdued demand and adequate supplies of key commodities kept inflation low during most of the year. The 12-monthly rate of wholesale price inflation rose by the end of the year to 6 percent, but remained below the program target (8 percent), and the average increase was no more than 3 percent.

The balance of payments position improved considerably in 1982/83. Revised estimates indicate that the current account deficit was broadly unchanged at 2.0 percent of GDP, but less than the program target of 2.1 percent. Export performance weakened over the course of the year, reflecting mainly weak demand and the halting of earlier export growth under bilateral arrangements. Export earnings are now estimated to have increased only slightly in terms of SDRs. Exports of manufactures increased by about 3 percent, but exports of primary products declined by 5 percent, partly because of reduced export supplies of rice. Export volume is estimated to have declined by about 3 percent, whereas the program projected an increase of 7 percent. However, the shortfall in exports was more than offset by lower imports, which are now estimated to have declined by 4 percent in SDR terms against the program's envisaged increase of a similar magnitude. The oil import bill declined by 13 percent, considerably more than projected. Whereas liberal import policies would have permitted sizable increases in imports of producer materials and capital goods, actual growth of these imports was less buoyant than expected because of sluggish industrial activity. Much of the improvement in the balance of payments in 1982/83 reflected developments on capital account; net nonmonetary capital inflows more than doubled to SDR 1.6 billion in 1982/83, resulting from a rise in net aid disbursements and higher commercial borrowing, including short-term financing undertaken by the oil sector. As a result, the overall deficit was reduced to SDR 1.3 billion from SDR 2.2 billion in 1981/82, considerably less than the program projection of SDR 1.7 billion. International reserves rose by SDR 0.6 billion during 1982/83 to SDR 4.9 billion (four months of projected 1983/84 imports) at the end of the year.

2. The program for 1983/84

The program for 1983/84 (EBS/83/130) is designed to assist in the economy's recovery from the difficulties experienced last year, contain the inflationary potential which emanates from the supply shortfall, and continue progress in structural adjustment. To this end, the authorities have adopted policies and implemented measures in a number of areas. Steps are being taken to raise public savings considerably to support increased public investment in key infrastructural sectors while continuing to limit bank financing of the Government within reasonable bounds. Monetary policy is aimed principally at containing aggregate demand and inflationary pressures. The program includes measures taken by the authorities as part of their ongoing program to promote economic efficiency and the external sector. These include measures affecting public pricing and industrial regulations and, in particular, signficant steps to liberalize import restrictions.

## III. Report on the Policy Discussions and EFF Review

1. Growth, prices and financial policies

a. The outlook for economic growth and inflation

Prospects for achieving real growth of 6-6.5 percent as projected appear good (Chart 1). The onset of monsoon rains was somewhat delayed in 1983, but rainfall subsequently was ample and widespread. Production of kharif season foodgrain and most other agricultural crops will increase considerably, and prospects for the coming rabi season are generally favorable. The authorities are hopeful that foodgrain production will reach or even exceed the target of 142 million tons, a new record and some 11 percent higher than last year. Agricultural growth is now estimated to reach about 7.5 percent, somewhat higher than earlier projected.

In contrast, industrial activity has remained subdued. Growth in industrial production slowed to 3.4 percent in the June quarter, and indications are that it remained low throughout the first half of the year. The authorities cite weak domestic demand resulting from last year's fall in agricultural incomes as the main cause. Production difficulties in several important industries have also been a factor and, in the case of electricity, generation shortfalls have resulted in increased power shortages affecting other industries. Production shortfalls in other key sectors, notably coal, steel and railway freight transport, have so far not resulted in serious infrastructural bottlenecks, because demand has been weak. The authorities expect that industrial activity will pick up from now on as a result of increased agricultural incomes and the completion of some inventory liquidation, and point to early indicators of increased demand in some key consumer goods industries. However, constraints operating on the supply side could limit the scope for a rapid industrial recovery; power shortages could intensify and significant bottlenecks re-emerge in other key sectors if demand for industrial goods increases strongly in the second half of the year. Overall, the authorities now project that industrial growth will be of the order of 5.5 percent in 1983/84, somewhat faster than in 1982/83 but below the program projection of 7 percent.

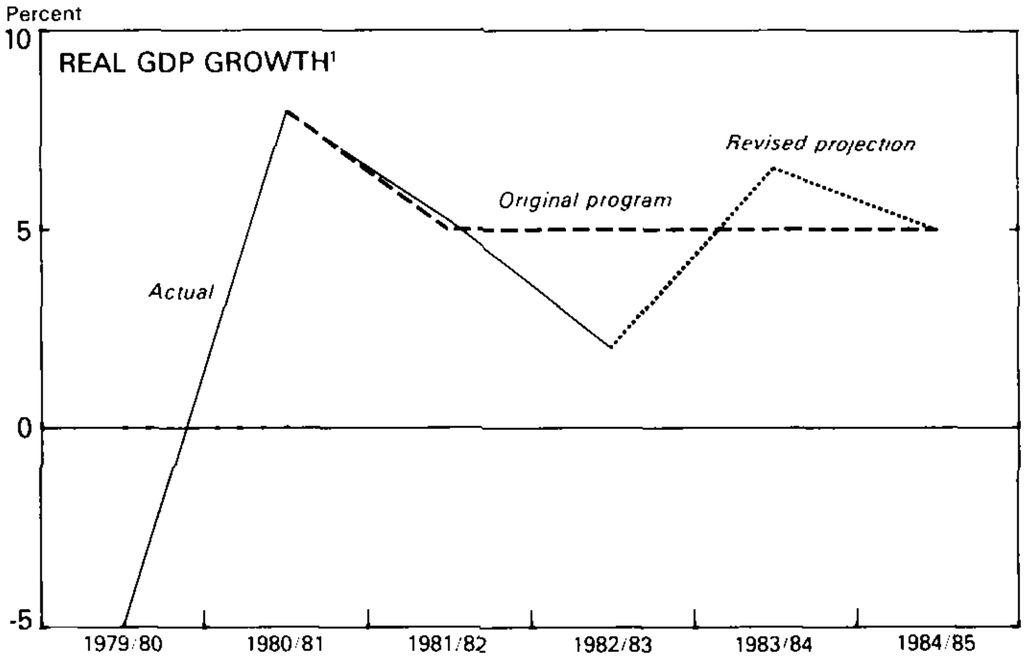
The acceleration in wholesale prices at the end of 1982/83 continued in the early months of 1983/84. Prices rose sharply in the first two months of the year as a result of shortages of some important items because of last year's drought and before prospects for the kharif harvest were known. Inflationary tendencies have not intensified subsequently, although by October 1983 wholesale prices were almost 10 percent higher than 12 months earlier. The authorities expect that wholesale prices will decline seasonally over the coming few months and that the rate of inflation will be reduced by the end of 1983/84 with the marketing of the good harvests and the elimination of supply imbalances in several key commodity groups. However, they note also that prices for nonagricultural items have accelerated somewhat, partly reflecting the indirect impact of administered price increases. They are therefore not confident that prices will decline sufficiently to be in line with the program target of 7 percent for the year as a whole, although they expect that inflation will be comfortably below double-digit levels. Consumer price inflation, which is particularly sensitive to food price developments, rose to 12 percent in the 12 months to August 1983 but is expected to decline significantly in the period ahead as a result of the good harvest.

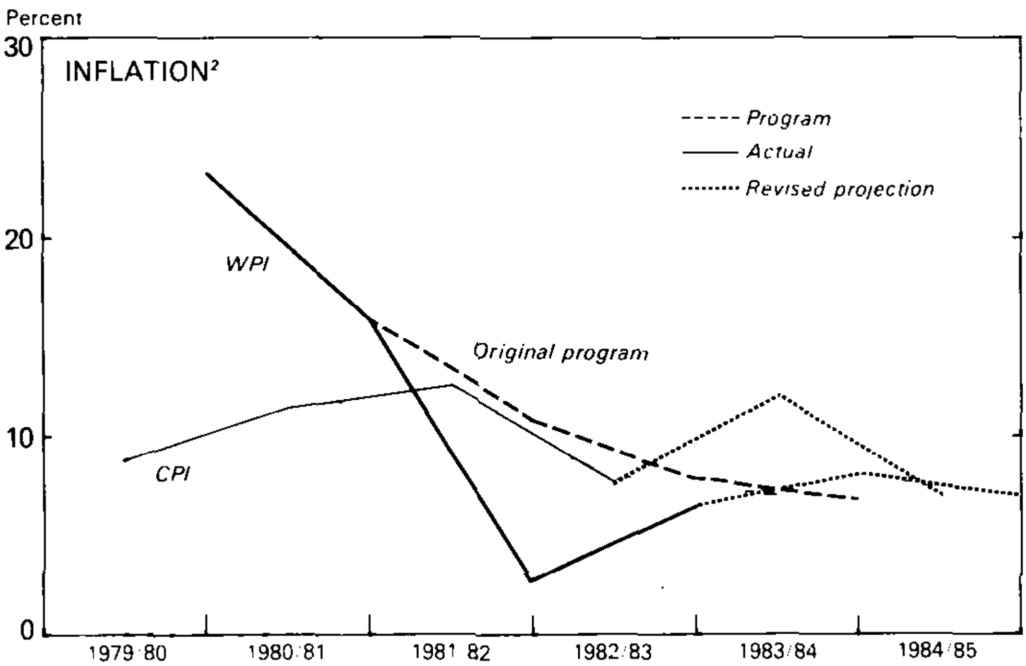
The upturn in inflation in 1983 has imposed constraints on the authorities' efforts to encourage industrial recovery. However, within these constraints policies are seeking to support increased demand in certain industries where capacity is not fully utilized. Selective credit policies have been aimed at directing credit to these uses. Also, in August 1983 excise duties were reduced or abolished on a range of items where demand was believed to be responsive to reduced prices. This action, together with a decision to import sizable quantities of foodgrain to rebuild stocks and generate confidence in the security of supplies through the public distribution system, are also aimed at discouraging inflationary expectations.

CHART 1

INDIA

# REAL GDP GROWTH AND INFLATION, 1979/80-1984/85




Sources: EBS/81/198, data provided by the Indian authorities, and staff projections.

[1] GDP at factor cost (at constant prices).

[2] WPI (end of fiscal year); CPI (fiscal year average).

b. Monetary and credit policies

Mindful of the difficulties experienced in 1981/82, when commercial credit was allowed to expand strongly in the traditional slack season in the early months of the year and sharply restraining credit policies were needed during the busy second half, the authorities took steps to absorb bank liquidity at the start of 1983/84. In April the Reserve Bank announced a two-stage increase in the cash reserve ratio from 7 to 8 percent, with the intention that the resources withdrawn would be returned to the banks later in the year during the busy season. In taking this and other steps to absorb bank liquidity, the Reserve Bank took into account sizable excess reserves held by banks. However, these actions did not have the full effect intended. Reserve money growth was unexpectedly rapid during the first half of 1983/84, increasing to 15 percent in the 12 months to September, compared with 10 percent in 1982/83. The faster growth stemmed largely from the stronger than expected balance of payments position. In formulating policies, the authorities had expected that external transactions would continue to exert a contractionary monetary impact throughout 1983/84, but during most of the first half of the year the external accounts were in surplus.

With the banking system continuing to experience easy liquidity conditions, the Reserve Bank further increased the CRR to 8.5 percent in August 1983. However, while this increase again reduced excess bank liquidity, most banks were able to meet the increase without restricting their lending operations. Credit to the commercial sector, which rose by 19 percent in 1982/83, accelerated slightly during the first half of 1983/84 (Table 2). Commercial credit demand was weaker than expected, in line with industrial conditions.

Net credit to Government increased at a seasonally strong pace during the first half of 1983/84, broadly in line with earlier expectations, and the expansion in total domestic credit of 18 percent in the 12 months to September 1983 was also in line with the program provision for the year as a whole. Both the ceiling on total domestic credit and the subceiling on net credit to Government were observed by comfortable margins in September 1983 (Chart 2). However, as noted above, external transactions did not have the expected contractionary impact and net other liabilities have also increased somewhat more slowly than projected. The rate of expansion in the money supply, which rose in the second half of 1982/83, has continued in the range of 13-16 percent during the first half of 1983/84. The increase in broad money has been in the range of 15-17 percent. These rates of increase, especially for narrow money, are notably higher than the program projections of 12 percent and 15 percent for the year as a whole.

Table 2. India: Monetary Survey, 1982/83-1983/84

(In billions of rupees) 1/

| | 1982 March Actual | 1983 March Program | 1983 March Actual 2/ | 1983 June Actual 3/ | 1983 September Program 4/ | 1983 September Actual 4/ | 1983 December Program 4/ | 1984 March Program 4/ |
|---|---|---|---|---|---|---|---|---|
| Domestic credit (ceiling) | 739.58 | 876.79 | 868.56 | 904.35 | 937.00 | 921.34 | 991.06 | 1,013.21 |
| | (18.9) | (18.6) | (17.4) | (17.7) | (19.9) | (17.9) | (18.7) | (17.8) |
| Net credit to Govt. (subceiling) | 309.11 | 364.53 | 355.21 | 381.65 | 385.89 | 382.54 | 398.09 | 413.34 |
| | (19.1) | (17.9) | (14.9) | (14.7) | (15.6) | (14.6) | (15.5) | (17.3) |
| Credit to commercial sector | 430.47 | 512.26 | 513.35 | 522.70 | 551.11 | 538.80 | 592.97 | 599.87 |
| | (18.7) | (19.0) | (19.3) | (19.9) | (23.2) | (20.5) | (21.0) | (18.1) |
| Net foreign assets | 26.61 | 9.01 | 15.22 | 18.15 | 7.99 | 14.51 | 3.64 | 0.74 |
| Other liabilities (net) | -141.31 | -161.66 | -160.19 | -158.75 | -161.70 | -155.04 | -171.55 | -181.81 |
| Broad money | 624.88 | 724.14 | 723.59 | 763.75 | 783.29 | 780.81 | 823.15 | 832.14 |
| | (12.7) | (15.9) | (15.8) | (15.5) | (17.1) | (16.7) | (14.9) | (15.0) |
| Narrow money | 247.92 | 282.13 | 284.16 | 300.51 | 297.12 | 294.11 | 314.85 | 318.26 |
| | (6.8) | (13.8) | (14.6) | (12.9) | (16.7) | (15.5) | (12.7) | (12.0) |
| Time deposits | 376.96 | 442.01 | 439.43 | 463.24 | 486.17 | 486.70 | 508.30 | 513.88 |
| | (16.9) | (17.3) | (16.6) | (17.2) | (17.4) | (17.5) | (16.3) | (16.9) |

Source: Data provided by the Indian authorities.

1/ Figures in parentheses are percentage changes over 12 months.

2/ Adjusted for use of SDRs and other factors to maintain comparability with base data (for details of adjustments see "India--Recent Economic Developments", SM/83/28, Table 18).

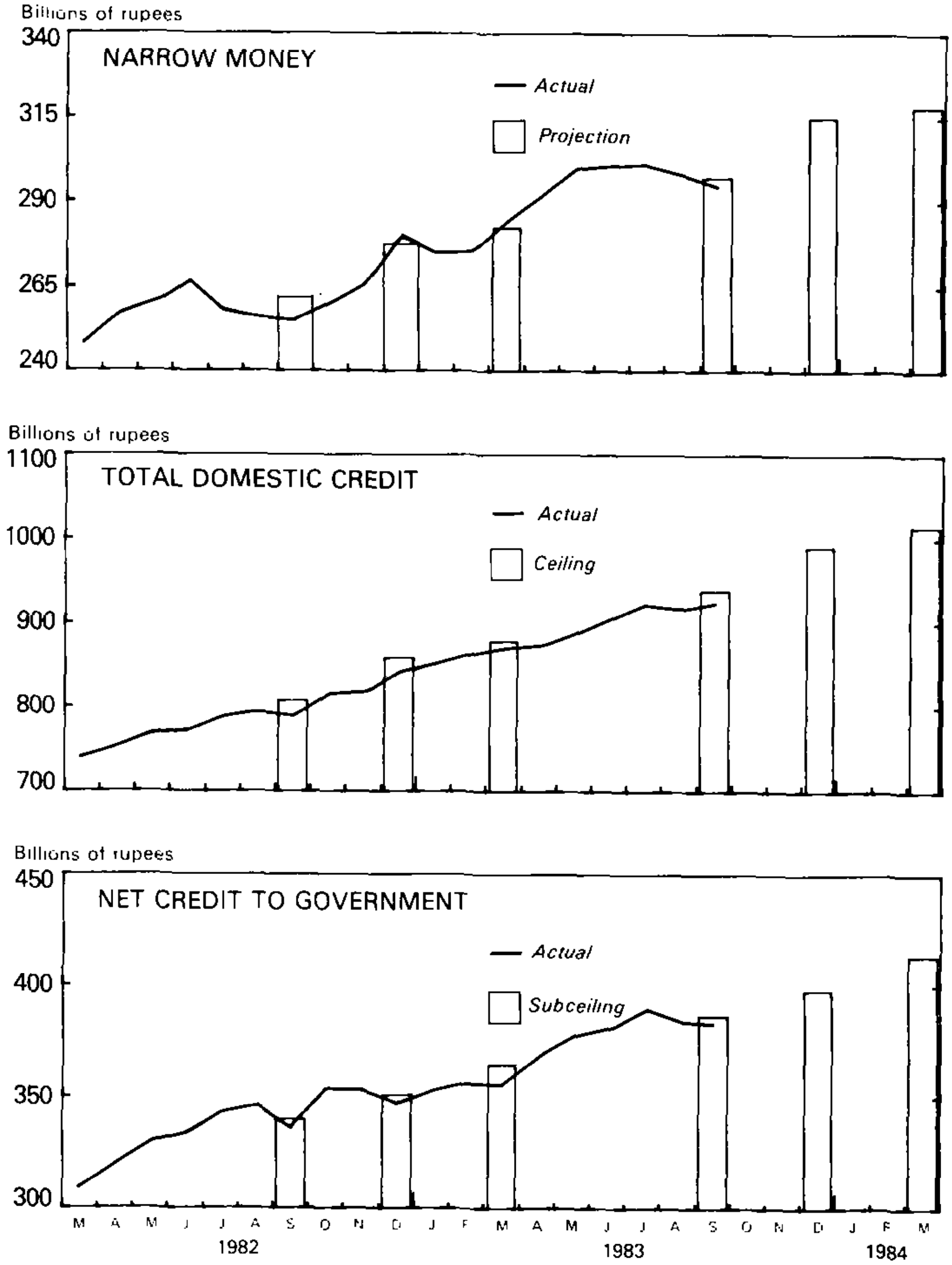
3/ Growth rates are over June 1982 data adjusted for the creation of NABARD in July 1982 for comparability with 1983 data.

4/ Growth rates are over comparable unadjusted 1982/83 data.

CHART 2

INDIA

# PERFORMANCE UNDER THE 1982/83 AND 1983/84 FINANCIAL PROGRAMS




Sources: Data provided by the Indian authorities and EBS/82/102 and EBS/83/130

The authorities believe that developments in the supply of key agricultural items is by far the most important factor accounting for the rise in inflation and, equally, that developments on the supply side will lead to a reduction in inflation over coming months. However, they are concerned about the rise in inflation and are determined to ensure that the rate is reduced. Up until now, they have been reluctant to act decisively to tighten monetary policies for fear of giving signals which would discourage the nascent industrial recovery. In October 1983 in announcing the credit policy for the coming busy season, the Reserve Bank did not introduce obviously restricting measures. However, refinance limits on food credit were cut back which limited the scope for commercial credit expansion to a similar extent as would a 1 percent increase in the CRR; also, the earlier intention to return withdrawn resources to the banks during the busy season was not acted upon. The authorities indicated that in present circumstances they remain guided by the monetary targets set in the financial program for the year as a whole, which they expect to be achieved, especially as the balance of payments should be more in line with the program projections in the second half. At the same time, they were monitoring price developments closely and would not hesitate to tighten monetary policies further if the expected seasonal price decline was delayed or weaker than expected. Subsequent to the mission's departure, the Reserve Bank introduced a 10 percent incremental cash reserve requirement with effect from November 12, 1983. The authorities believe this provides an important signal of the priority they attach to containing inflation.

Interest rates on long-term deposits and all lending rates remain positive in real terms at present levels of inflation. The authorities believe that, in providing incentives for private savings, the rates applying to longer term deposits are of predominant importance and that despite some increase in inflation these rates remain attractive. Interest rate adjustments in 1983 included a reduction in general lending rates from 19.5 to 18.0 percent in March 1983, accompanied by a narrowing of the differential between general and preferential rates; interest rates on government securities were also increased to bring them closer to market levels.

### c. Fiscal policy, public savings, and investment

#### (i) The 1983/84 budget

The agreed program for 1983/84 provided for an increase in revenue and grants of 18 percent over the 1982/83 outturn relative to a 15 percent increase in expenditure and net lending, with an overall deficit of Rs 116 billion, or 6.5 percent of GDP (Table 3). Revenues were projected to be Rs 3 billion higher than in the original 1983/84 budget, and additional investment and public wage expenditure were expected to augment Central Government expenditure by Rs 11 billion

Table 3. India: Summary of Central Government Budget, 1980/81-1983/84

(In billions of rupees)

| | 1980/81 | 1981/82 | Preliminary Actuals 1982/83 | 1983/84 Budget | 1983/84 Program | 1983/84 Updated Estimates |
|---|---|---|---|---|---|---|
| Total revenue and grants | 128.3 | 155.7 | 177.7 | 206.3 | 209.3 | 208.3 |
| Current revenue | 124.6 | 152.3 | 174.5 | 202.8 | 205.8 | 204.8 |
| Foreign grants | 3.7 | 3.2 | 3.2 | 3.5 | 3.5 | 3.5 |
| Total expenditure and net lending | 211.5 | 241.6 | 283.4 | 314.3 | 325.3 | 334.8 |
| Current expenditure | 136.0 | 158.7 | 192.5 | 224.2 | 227.2 | 228.4 |
| Capital expenditure and net lending | 75.5 | 82.9 | 90.9 | 90.1 | 98.1 | 106.4 |
| Overall deficit | -83.2 | -85.9 | -105.7 | -108.0 | -116.0 | -126.5 |
| Net external financing | 13.4 | 10.3 | 13.9 | 16.1 | 16.1 | 16.1 |
| Gross | 17.3 | 14.5 | 18.3 | 20.6 | 20.6 | 20.6 |
| Repayment | 3.9 | 4.2 | 4.4 | 4.5 | 4.5 | 4.5 |
| Domestic borrowing | 69.8 | 75.6 | 91.8 | 91.9 | 99.9 | 110.4 |
| Net market borrowing | 25.8 | 29.1 | 38.0 | 40.0 | 40.0 | 40.0 |
| Bank | (20.9) | (21.6) | (22.6) | (28.5) | (28.5) | (29.5) |
| Nonbank | (4.9) | (7.5) | (15.4) | (11.5) | (11.5) | (10.5) |
| Nonmarket and miscellaneous financing 1/ | 18.3 | 32.6 | 37.5 | 36.4 | 36.4 | 47.9 |
| Official deficit financing 2/ | 25.7 | 13.9 | 16.3 | 15.5 | 23.5 | 22.5 |
| Of which: State investment in Treasury bills | (-4.0) | (-3.3) | (1.9) | (--) | (--) | (--) |
| Memorandum items: | | | | | | |
| Bank financing | | | | | | |
| Central Government | 50.6 | 39.2 | 34.2 | ... | 52.0 | 52.0 |
| Central and State Governments | 57.1 | 49.6 | 46.1 | ... | 61.0 | 61.0 |
| Overall deficit (in percent of GDP) | 6.6 | 5.8 | 6.8 | 6.1 | 6.5 | 7.1 |
| Bank financing (in percent of GDP) | | | | | | |
| Central Government | 4.0 | 2.7 | 2.2 | ... | 2.9 | 2.9 |
| Central and State Governments | 4.5 | 3.4 | 3.0 | ... | 3.4 | 3.4 |

Sources: 1983/84 budget documents and staff estimates based on discussions with the Indian authorities.

1/ Includes subscriptions to small savings schemes, provident funds, and oil sector deposits.

2/ As officially defined, covering the net issue of Treasury bills and changes in cash balances.

over the budgeted amount. Updated projections suggest that there will be a slight shortfall in revenue and an expansion of Rs 9.5 billion in expenditure compared with the program, which will lead to a rise in the overall deficit to Rs 126.5 billion, or 7.1 percent of GDP. However, sharply increased nonbank domestic financing should allow the higher deficit to be accommodated without additional bank financing beyond the program estimate. Taking account of bank borrowing by the States, which is expected to remain in line with the program provision, the authorities do not foresee difficulty in remaining within the ceilings for net credit to Government established in the financial program during the remainder of the year.

Revenues are expected to fall short of the program target by Rs 1 billion, primarily due to tax concessions offered to stimulate the lagging industrial sector. Customs duty relief was granted in August for imported inputs in the electronics industry and for imports of textile machinery; similarly, excise duties were reduced for a wide range of products.

On the expenditure side, capital expenditure and net lending is projected to rise by more than Rs 8 billion over the program target, including Rs 5.6 billion for additional Central Plan investment, and an increase of Rs 2.7 billion in loans and advances to the States reflecting their mandated share of higher than expected small savings receipts. Current expenditures will rise slightly relative to the program target. The 7.5 percent reduction in fertilizer prices introduced in July is estimated to raise the fertilizer subsidy by Rs 2 billion above the budget estimate to Rs 9 billion, and total budget subsidies are estimated to increase to Rs 28.5 billion (1.6 percent of GDP) from Rs 23.9 billion (1.5 percent of GDP) in 1982/83. Additional expenditures for government cost of living increases and interim wage relief will raise wage costs by Rs 3.7 billion above the original budget; however, the program already included provision for some additional wage payments and, with an expected shortfall in pension expenditure, total wage and salary expenditures are estimated to remain within the program estimate.

The expected higher amount of nonbank financing derives mainly from loans from the oil sector. The softening of international oil prices has led to the emergence of a margin between the domestic sales price of petroleum products and their average cost, including domestic taxes. Since 1982/83, that part of the surplus which is considered to be durable has been deposited by the oil sector with the Government. These deposits amounted to Rs 3 billion in 1982/83 and are estimated to total an additional Rs 8 billion in 1983/84. While in principle these deposits could be withdrawn by the oil companies in the event that the various parameters generating the surplus change, the authorities expect the deposits to be maintained. They pointed to the important role played by petroleum pricing policies in their resource mobilization efforts during the program period and indicated that this policy is being continued. As an alternative mechanism, the surplus could be tapped by raising petroleum excise taxes. In that case, the equivalent resource transfer would have been reflected as current revenues rather than borrowing, and the overall budget deficit would have been lower, equivalent to 6.7 percent of GDP in both 1982/83 and 1983/84. Investments by the public in small savings schemes are expected to be Rs 4 billion higher than in the program, reaching Rs 21 billion compared with Rs 16.5 billion and Rs 14.0 billion in the previous two years. The strong growth is due to a number of initiatives taken by the authorities over recent years to encourage small savings and extend the range of instruments available for private savings, including increases in the exemption from income tax related to investments in small savings schemes.

(ii) Public savings, resource mobilization, and financing of the Annual Plan

Rapid growth of overall public savings continues to be an important element of the adjustment program. Public savings are now projected to rise by 31 percent to Rs 99.2 billion in 1983/84, equivalent to 5.6 percent of GDP, somewhat above the program target of 5.4 percent (Table 4). The estimate for 1982/83 has also been increased to 4.9 percent of GDP from the earlier estimate of 4.8 percent. The share of total Plan expenditure financed by public savings is expected to rise from 30 percent in 1980/81 to 38 percent in 1983/84, while over the same period total Plan expenditure has risen by 73 percent.

Central public savings are projected to be Rs 6 billion higher than the program target, reaching 3.9 percent of GDP in 1983/84. This reflects the strong overall savings performance of nonfinancial public sector undertakings, particularly in the petroleum sector. Public enterprise savings are projected to rise from 2.3 percent of GDP in 1982/83 to 3.0 percent in 1983/84, in nominal terms more than three times that immediately prior to the program. Within the total, the share of the petroleum sector, which was around 47 percent in the last three years, is expected to rise to 56 percent in 1983/84. This underscores the crucial role in the effort to strengthen public finances of petroleum pricing policies and increases in domestic petroleum production where costs are lower than for imports. However, some other pricing measures will contribute to the expected strong savings performance in 1983/84, including increases in railway and postal tariffs announced prior to the budget.

In contrast, Central budgetary savings are now estimated to be somewhat below the program estimate in 1983/84 and virtually unchanged from the low amount in 1982/83. The erosion from the program target in 1983/84 stems from the combined effect of tax concessions and higher

Table 4. India: Public Sector Savings for Plan Financing, 1980/81-1983/84

(In billions of rupees)

| | 1980/81 | 1981/82 | 1982/83 Program 1/ | 1982/83 Latest est. | Projection, 1983/84 Program 2/ | Projection, 1983/84 Updated est. |
|---|---|---|---|---|---|---|
| Central public sector resources | 29.1 | 41.9 | 55.0 | 50.9 | 63.1 | 69.2 |
| Percent of GDP | (2.3) | (2.8) | (3.3) 1/ | (3.3) | (3.5) | (3.9) |
| Budgetary resources | 12.7 | 19.0 | 21.1 | 15.4 | 17.6 | 15.6 |
| Nonfinancial enterprises | 16.4 | 22.9 | 33.9 | 35.5 | 45.5 | 53.6 |
| State public sector resources | 16.9 | 21.4 | 29.1 | 25.0 | 33.1 | 30.0 |
| Percent of GDP | (1.3) | (1.5) | (1.7) | (1.6) | (1.9) | (1.7) |
| Public savings available for Plan financing | 46.0 | 63.3 | 84.1 | 75.9 | 96.2 | 99.2 |
| Percent of GDP | (3.6) | (4.3) | (5.0) 1/ | (4.9) | (5.4) | (5.6) |

Sources: EBS/81/198, EBS/82/102, EBS/83/16, EBS/83/130, 1983/84 budget documents, and staff estimates based on discussions with the Indian authorities.

1/ From EBS/82/102, Table 10 and based on the then current estimate for GDP that has since been revised downward. Using the revised estimates would yield ratios of 3.3 percent and 5.4 percent, respectively.
2/ From EBS/83/130, Table 7.

fertilizer subsidies. As a proportion of GDP, budgetary savings would be 0.9 percent, significantly less than the 1.3 percent achieved in 1981/82. The decline in the rate of Central budgetary savings since 1981/82 has occurred because of rapid growth in current non-Plan expenditure, which is estimated to rise from 8.7 percent of GDP in 1981/82 to 10.3 percent in 1983/84. Tax revenues have not been sufficiently buoyant to offset this, rising from 7.9 percent of GDP to an estimated 8.9 percent over the same period.

State savings are projected to improve slightly in 1983/84, rising to 1.7 percent from 1.6 percent of GDP in 1982/83. However, the revised estimate would be below the program target of 1.9 percent. State budgets continue to be under pressure from increased wage and material costs. Also, additional resource mobilization efforts have lagged; by October 1983 only Rs 5.3 billion of the Rs 8.3 billion in additional resource mobilization measures agreed by the States for 1983/84 had been implemented. However, the authorities are confident that by the end of the year measures accounting for most of the agreed amount will have been introduced. Measures implemented so far principally involve increases in sales taxes and in State Electricity Board tariffs.

On the basis of the revised budgetary and savings projections, resources would be available to finance Plan expenditures totaling Rs 260.2 billion in 1983/84. This would be an increase of 23 percent over estimated expenditures in 1982/83; as a percentage of GDP, Plan spending would rise to 14.6 percent, an increase of 1 percentage point from last year. Available resources would also be Rs 5.4 billion higher than envisaged in the program for 1983/84 and Rs 5.3 billion more than the level of expenditures approved in the 1983/84 budget. The Centre would be in a position to finance Plan expenditures totaling Rs 8.9 billion more than provided in the budget to cover additional priority investments in key sectors; some additional amounts have already been allocated as detailed below. However, there would be a shortfall of Rs 3.6 billion in resources available to finance State Plans compared with the budgeted amounts. The authorities have reiterated their intention to limit expenditures within the amount of available resources, implying that the increase in State Plan expenditures in 1983/84 would be no more than 12 percent. This would place a squeeze on real investment levels at the State level, including, inevitably, electric power and irrigation projects which already face binding financial constraints.

## 2. Economic development and planning

### a. Recent performance in key sectors

The key sector investment program for 1983/84 has generally progressed well, with capacity expansion targets likely to be met, or nearly achieved, in most areas (Table 5). Production and capacity utilization in the first half of 1983/84, however, were on the whole somewhat below expected levels.

Power generation in the first six months of 1983/84 was only slightly higher than in the same period of the previous year and power shortages were experienced by many sections of industry. This was, to a large extent, a result of the drought which affected hydro generation; however, growth in thermal generation was also below target, because of protracted maintenance in some units and forced outages in others. With the commissioning of new plants, an expected improvement in the average plant load factor, and the good monsoon, the authorities expect that generation will pick up sharply in the second half of the year and power shortages will be reduced. However, some shortfall from the generation target for the year as a whole will remain. The power capacity expansion program fell somewhat behind schedule in the first seven months of the year, but the authorities expect an increase in capacity substantially in excess of last year's record of 3,060 MW and close to the program target of 4,100 MW.

Coal production was depressed during the first few months of 1983/84 because of power shortages and labor problems. While production subsequently picked up and is expected to improve further during the remainder of the year, some shortfall from the target of 142 million tons for 1983/84 is expected. However, demand is estimated to be lower than earlier projected, and with some drawdown of stocks, the needs of the economy can be met. The accelerated oil development program continues to proceed on track and production should at least achieve the target of 26.3 million tons for 1983/84.

Railway freight movement showed little increase in the first half of 1983/84 because demand from certain sectors, notably steel, turned out to be less than estimated, but the railways are expected to be able to meet the higher demand projected for the second half of the year. Total freight movement for the year as a whole, however, is projected to be significantly less than the program target, partly as a result of an unexpected further decline in the average distance freight is hauled, as well as the sluggish demand early in the year.

Plan expenditure on irrigation has been focused on projects nearing completion, and the expansion in utilized irrigated area is likely to increase in 1983/84 by close to the program target of 2.5 million hectares. The capacity expansion targets for both cement and fertilizer are also likely to be achieved. Capacity expansion in the steel industry is likely to fall marginally short of the program target.

Table 5. India: Agriculture and Industry Capacity Projections, 1981/82-1984/85

(In millions of metric tons)

| | 1981/82 Actual | 1982/83 Program | 1982/83 Estimated actual | 1983/84 Program | 1983/84 Estimate | 1984/85 Original Sixth Plan target | 1984/85 Revised target |
|---|---|---|---|---|---|---|---|
| Industry | | | | | | | |
| Cement (capacity) | 29.3 | 38.0 | 33.5 | 38.0 | 38.0 | 43.0 | 44.0 |
| Coal (production) | 124.3 | 133.0 | 130.7 | 142.0 | 138-139 | 165.0 | 154.0 |
| Crude oil (production) | 16.2 | 21.0 | 21.1 | 26.3 | 26.3 | 21.6 | 27.5 |
| Electric power (end-year installed capacity, '000 MW) | 35.6 | 39.1 | 38.6 | 42.7 1/ | 42.7 | 51.2 | 46.1 |
| Nitrogenous fertilizer (capacity) | 4.7 | 5.3 | 5.1 | 5.3 | 5.3 | 5.9 | 5.8 |
| Railway freight (bn.ton-kms) | 174 | 183 | 176 | 184 | 175 | 220 | 188 |
| Steel (capacity) | 11.2 | 12.4 | 11.7 | 12.8 | 12.7 | 14.3 | 13.4 |
| Agriculture | | | | | | | |
| Foodgrain production | 133.3 | 141.5 | 128.4 | 142.0 | 142.0 | 149-154 | 146-148 |
| Utilized irrigated area (mn. hectares) | 56.17 | 58.70 | 58.54 | 61.07 | 61.07 | 66.24 | 63.8-64.3 |
| Fertilizer consumption | 6.1 | 7.2 | 6.4 | 7.2 | 7.5 | 9.7 | ... |

Sources: "Sixth Five-Year Plan, 1980-85: Mid-term Appraisal," Planning Commission; and data provided by the Indian authorities.

1/ Revised upward to allow for a revision in the base figure.

b. Review of the Sixth Plan

A mid-term appraisal of the performance under the Sixth Plan was published by the Planning Commission earlier in the year. The review reinforced many of the concerns expressed in earlier reports by the staff and the World Bank. In particular, the appraisal emphasized that, in view of an overall shortfall in Sixth Plan outlays in real terms, it was of vital importance to protect investment levels in key infrastructural sectors, notably power, irrigation, coal, and the railways. Delays in such investment, which tended to have a long gestation period, could not be made up in the short term, and it was important that action be taken quickly to prevent capacity constraints in these areas affecting the economy in the future. Reflecting the anticipated shortfall in real investment, the appraisal also revised downward original Sixth Plan capacity targets for 1984/85 in several key sectors.

In the power sector, the appraisal pointed out that the expansion of power capacity during the first three years of the Sixth Plan had been limited chiefly by difficulties in project implementation. But with recent improvements in implementation, the availability of resources, which has been severely restricted by the poor financial performance of State Electricity Boards, has become the binding constraint. The estimates for installed capacity and generation for 1984/85 have been revised downward substantially, and the appraisal called for a sizable increase in Plan outlays because of the danger that power shortages could become an even more severe constraint on the economy in the future.

Real investment in the coal industry has also fallen behind schedule, and the target for production in 1984/85 has been revised downward from 165 million tons to 154 million tons. However, the demand projection for 1984/85 has also been reduced, and the authorities believe that with a further drawdown in stocks this lower demand should be fully met. Nevertheless, the authorities emphasize the importance of providing additional outlays for the coal sector both to safeguard current production and to allow work on new projects to go ahead.

Real expenditure on irrigation has fallen well below the original Sixth Plan target level, which has resulted in slippages in ongoing projects, despite the diversion of resources away from new schemes. As a consequence, the target for utilized irrigated area in 1984/85 has been reduced from 66 million to 64 million hectares. Increased Plan outlays should be concentrated on clearing the backlog of uncompleted projects, which should still leave an adequate project pipeline; given the financial constraints, this appears to be an appropriate strategy. The projected demand for railway freight movement at the end of the

Plan has been revised downward substantially. Nevertheless, increased investment in the railways is needed to compensate for years of under-investment and to prevent the recurrence of bottlenecks in rail transportation in future years.

As indicated when the program for 1983/84 was prepared, Plan allocations for several key sectors have been increased over budgeted amounts during the course of the year. Allocations have been raised by Rs 8 billion, including sizable additional amounts for the railways (Rs 1.6 billion), coal (Rs 1.4 billion), and the Central power (Rs 1.0 billion) sectors. However, additional amounts have also been provided for projects outside the key sector program, while additional funding has not been provided in all important areas, especially at the State level where financial constraints are most severe; there has been only a modest increase in outlays for irrigation (Rs 0.5 billion), which is largely a State responsibility, and no increase for the State power sector.

### 3. Agriculture and industrial policies

#### a. Agriculture

Against the background of the large shortfall in food production in 1982/83, agricultural policies in the current year have been designed to strengthen producer incentives and ensure adequate stocks of food-grains in the public distribution system. In early 1983, the procurement price of wheat was raised by 6.3 percent, and a support price for barley was also announced. In July 1983, the procurement price for paddy was increased by 8.2 percent, procurement prices for coarse grains were raised by 5 percent, and support prices for principal kharif pulses were increased by 4-14 percent. Issue prices for rice have still to be adjusted to reflect the higher paddy procurement price.

Fertilizer prices were reduced by 7.5 percent in July 1983, with a larger reduction for purchases from official stocks. The decision to reduce prices was taken against the background of a slowdown in fertilizer offtakes and a buildup in stocks at the beginning of the kharif season, as well as a decline in international fertilizer prices in 1982, and was aimed at promoting a sizable step-up in food production during the kharif season. Fertilizer consumption is now estimated to increase by about 17 percent in 1983/84, well above the original target (12.5 percent) and the 1982/83 growth rate (5 percent). Fertilizer stocks have been sharply reduced, resulting in a saving on carrying costs but, overall, the subsidy on fertilizer is projected to increase considerably. While recognizing the adverse impact of the price reduction on public finances, the authorities stress important benefits in containing food prices and imports. They also emphasize that the issues surrounding the fertilizer subsidy are complex and that to a large extent the subsidy stems from high domestic production costs. Even at their reduced level, fertilizer prices in India remain generally higher than in other countries in the region. Earlier this year a government committee was formed to examine all aspects of fertilizer pricing; a report is to be issued for government consideration soon.

In mid-1983 the authorities arranged foodgrain imports of 2.4 million tons to arrive later in the year. This decision was prompted by high offtakes from public distribution, rising prices, and a delay in the onset of monsoon rains. In view of the favorable crop prospects, the situation in the public foodgrain distribution system is now expected to ease substantially. Procurement of wheat has been progressing well and a substantial increase in rice procurement is now likely in 1983/84. As a result, official stocks of foodgrains are projected to reach about 17 million tons by the end of 1983/84, compared with 11 million tons in March 1983. This level would not be in excess of that needed to ensure food security.

The authorities have stepped up imports of edible oil following a sharp increase in prices in the first half of 1983/84. This, together with a substantial increase in oilseeds production, is expected to reverse some of the price increase. The problems in the sugar sector have increased in recent years. Many States have set unrealistically high prices for sugarcane to be paid by sugar mills, which has led to an excess supply of cane to sugar mills, rapidly increasing sugar stocks, and large arrears in payments to growers by the mills. To alleviate some of the financial burden on the sugar mills, the official buffer stock of sugar was recently doubled to 1 million tons, equivalent to 20 percent of present sugar stocks. The minimum sugarcane price to be paid by mills set by the Centre for the 1983/84 season was increased by 4 percent in November 1983. However, the Central Government is continuing its efforts to encourage the States to reduce State-advised prices, which have been substantially in excess of the minimum price.

### b. Industrial policy and pricing

A complex network of industrial regulations has been directed toward promoting investment in priority sectors, dispersing industry throughout the country, developing the small-scale sector and preventing industrial concentration and monopolies by large firms. While maintaining these objectives, the Government has been refining the regulatory instruments adopted to achieve them, with the aim of eliminating unnecessary restrictions and improving efficiency.

Industrial investments above a minimum amount require official approval through the issue of an industrial license. Important steps have been taken this year to streamline the industrial licensing system.

In April 1983 the limit below which an industrial license is not required was raised from Rs 30 million to Rs 50 million. This freed a large number of investments from licensing controls and has also allowed investments requiring licensing to receive approval with greater dispatch. A total of 310 applications for industrial licenses received in 1982/83 would now be exempt from licensing, while the number of licenses issued has also increased sharply so far in 1983. Also, in May 1983, investments in nine nationally important industries, covering electronics, fertilizers, drugs and machinery items, were exempted from restrictions arising under the Monopolies and Restrictive Trade Practices (MRTP) Act. These industries were selected because of the high level of technology required and the priority in establishing productive capacity in these areas, in some cases because of export potential. The authorities indicate that the list of industries will be kept under review and adapted to reflect evolving industrial priorities.

Policies which allow freer access to foreign technology are being maintained, with an emphasis on providing pragmatic responses to proposals by businesses based on the merits of the individual case. An example of this policy is the substantial restructuring of the motor vehicle industry which is under way; access to foreign collaboration arrangements has encouraged modernization of technology which for many years had been stagnant. Recently, policy initiatives have been taken to upgrade technology in the textile industry through duty reductions on imports of textile machinery, and to redirect efforts in electronics toward assembly operations where efficiency of the domestic industry is greatest.

Under a recent decision, 100 percent export-oriented units will be allowed to sell up to 25 percent of their output in the domestic market, although only against valid import licenses. However, in a number of cases (e.g., leather goods and garments), domestic sales will not be possible because imports are not allowed, and in other cases the scope for sales in competition with imports will be limited. The Government's decision to limit domestic sales to those against valid import licenses was predicated on the need to limit the disruption of existing industries which produced for the domestic market and would not benefit from incentives provided under the 100 percent export-oriented unit scheme. The authorities intend to monitor the impact of the new arrangement with a view to a possible further liberalization in the future.

More flexible industrial pricing policies are being continued. Under the dual price marketing arrangement for cement, controlled prices were raised by 6 percent in September 1983 to cover higher transport costs. The authorities believe that further progress in reducing the scope of price controls will be feasible if the recent progress in reducing the shortage in domestic capacity is maintained.

Recent developments confirm that the lifting of official controls on steel prices last year is resulting in greater flexibility and the intended commercial orientation of pricing. The Joint Plant Committee raised prices in April 1983 to reflect higher transport costs and again in July 1983 to cover wage and other cost increases. The July adjustment was also selective, and prices for some items were reduced then, and subsequently, in order to reduce excessive inventories. Coal prices were last raised in May 1982, with the intention that the coal industry should earn 10 percent profits on equity investments. Subsequent cost increases, including a large wage increase, have eliminated the profit margin and the coal industry is expected to shift from profitability in 1982/83 to a sizable loss in 1983/84. The Government is currently reviewing coal prices.

c. Import liberalization

The import policy for 1983/84 included significant measures aimed at promoting exports, expanding the access of indigenous industries to foreign capital goods and technology, and simplifying import procedures. Changes in the policy were described in detail in EBS/83/130 and an economically weighted assessment of the significance of changes in the policy was provided in Supplement 1 of that report. These liberalization policies have been maintained, although data on imports and licensing for the first quarter of 1983/84 suggest their impact on imports may be somewhat less than anticipated. In part, this is because of less buoyant demand conditions than expected at the time the program for 1983/84 was agreed. Some additional changes have been announced in the policy since May 1983 which, on balance, are likely to increase marginally access to imports.

Changes announced in the import policy in April and May 1983 and in the 1983/84 budget were estimated to increase access to imports (other than petroleum, fertilizers, edible oils, and foodgrains) by 12.5 percent from 1982/83 import values. Taking account also of mechanisms for increases in license values previously built into the licensing system, total access to imports covered by the import policy was estimated to increase by 30 percent in 1983/84. Licensing data for the first quarter of 1983/84 indicate increases in the value of REP licenses and capital goods licenses of 12 percent and 16 percent, respectively, as compared with the corresponding period in 1982/83. These increases are not out of line with the program projections, particularly since the one-window clearance procedure for capital goods imports (which accounts for 16 percentage points of the projected 26 percent increase in these licenses) was announced only in late May 1983. Even so, early indications suggest that the one-window facility may have a somewhat smaller impact on imports than envisaged. Whereas the values of automatic and supplementary licenses were projected to increase in 1983/84, the value of automatic licenses declined during the first quarter and the value of supplementary licenses remained approximately unchanged. However, these data provide an incomplete picture and the likely effects of the current import policy on access would be considerably greater.

Data on OGL imports are only available with a considerable time lag, while statistics on imports under the personal baggage scheme are not collected or included in official statistics. Partial data on imports by returning Indians 1/ and machinery imports 2/ indicate a considerable increase in at least some categories of OGL imports. With regard to the List Attestation Procedure introduced in April 1983, which had the potential to reduce imports by units under Phased Manufacturing Programs, initial data indicate that the access of these units to imports has not been reduced. 3/ There is evidence that relaxation of the personal baggage allowance announced in the 1983/84 budget is exposing domestic industries to greater international competition, particularly for items such as radios where production has declined by as much as 30 percent.

There have been two major changes to the import system introduced since May 1983. Administrative procedures under which global tenders are available for capital investment in 13 industries have been tightened, in order to ensure that equipment specifications are not used to unnecessarily preclude domestic suppliers from submitting valid tenders; and the licensing classification was changed for 28 items that, on balance, can be expected to marginally increase access to imports. Other changes that also affect access to imports include measures discussed earlier to strengthen the technological base of the textile and automobile industries and to redirect the electronics industry, and the establishment of procedures to reduce administrative delays in the establishment of 100 percent export-oriented units.

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1/ Applications for capital goods licenses by nonresident Indians have increased substantially in 1983/84. For the period April-October 1983, 116 applications were received compared to 167 applications for all of 1982/83. It is reasonable to assume that these applicants would also utilize their OGL facilities for importing capital goods and their extra allowances under the personal baggage scheme.

2/ Customs data indicate a 39 percent increase in machinery imports during the first quarter of 1983/84, compared with the same period last year.

3/ Under Phased Manufacturing Programs, manufacturers are permitted to commence production based on a high import content, subject to a commitment to reduce import content over several years. Potentially, manufacturers could import in excess of this commitment as most of their component requirements are on OGL. The List Attestation Procedure is intended to ensure compliance with this commitment.

## 4. External policies

### a. The balance of payments in 1983/84 and 1984/85

Balance of payments forecasts for 1983/84 and 1984/85 have been revised, taking into account revisions to the estimates for 1982/83, recent external developments, and the present outlook for the world economy. The revised forecasts reveal a somewhat more favorable position than had been expected, although the projected 3 percent improvement in the terms of trade is largely unchanged from the earlier estimate (Chart 3). In 1983/84 the current account deficit is expected to be 1.9 percent of GDP, while the program envisaged an unchanged deficit of 2.1 percent; and the overall deficit is now projected to fall to SDR 1.1 billion, compared with the earlier estimate of SDR 1.5 billion (Table 6). The improvement is carried forward into 1984/85, although little new information has become available since the previous estimates were made and the forecasts remain tentative at this stage. The current account deficit is now projected to decline to about 1.6 percent of GDP in 1984/85, 0.2 percentage points lower than originally expected, and the overall deficit would be SDR 0.1 billion lower than previously forecast at SDR 0.7 billion. The authorities stress that the balance of payments outcome for 1983/84 is subject to considerable uncertainty at this stage and their belief that the deficit in 1984/85 could well be larger than now projected.

The overall balance of payments position was much stronger than had been expected in the first half of 1983/84. During the June quarter an overall surplus of SDR 144 million was recorded; the better than expected result can be attributed mainly to capital inflows into nonresident investment accounts and those associated with bilateral payments agreements, together with low imports, especially of bulk items. The overall position shifted to a deficit of SDR 386 million in the September quarter. The deficit of SDR 833 million projected for the second half of the year implies a continuation of the deficit at about the same rate as that recorded in the September quarter, which appears reasonable since all payments for food imports will be made in this period. Subsequent to the mission's departure, data have become available which indicate that the overall balance of payments recorded a deficit of SDR 292 million during October and November, bringing the cumulative deficit during the first eight months of the year to SDR 535 million. On the basis of the revised estimates, international reserves would rise by SDR 158 million in 1983/84, and at the end of the year would amount to SDR 5.1 billion, equivalent to four months of estimated 1984/85 imports.

Exports (in SDRs) are now estimated to increase by 5 percent in 1983/84, less than the earlier estimate of 7 percent. The reduction is due to lower export volume growth, which is now estimated to be about

Table 6. India: Balance of Payments, 1981/82-1984/85

(In millions of SDRs)

| | 1981/82 Preliminary Actual | 1982/83 Revised Estimate | 1983/84 Program Apr.'83 | 1983/84 Revised Oct.'83 | 1984/85 Program Apr.'83 | 1984/85 Revised Oct.'83 |
|---|---|---|---|---|---|---|
| Exports, f.o.b. 1/ | 7,324 | 7,363 | 8,171 | 7,738 | 9,285 | 8,804 |
| Imports, c.i.f. | -13,271 | -12,778 | -13,538 | -13,083 | -14,485 | -13,900 |
| Oil 1/ | (-4,840) | (-4,212) | (-3,528) | (-3,528) | (-3,630) | (-3,521) |
| Non-oil | (-8,431) | (-8,566) | (-10,010) | (-9,555) | (-10,855) | (-10,379) |
| Trade deficit | -5,947 | -5,415 | -5,367 | -5,345 | -5,200 | -5,096 |
| Services and private transfers | 3,061 | 2,513 | 1,967 | 2,238 | 1,857 | 2,085 |
| Nonfactor income | (924) | (865) | (1,133) | (917) | (1,270) | (973) |
| Investment income | (329) | (-120) | (-512) | (-301) | (-705) | (-510) |
| Private transfers | (1,808) | (1,768) | (1,346) | (1,622) | (1,292) | (1,622) |
| Current account | -2,886 | -2,902 | -3,400 | -3,107 | -3,343 | -3,011 |
| Concessional loans and grants 2/ | 975 | 1,577 | 1,532 | 1,532 | 1,718 | 1,668 |
| Disbursements | (1,610) | (2,140) | (2,116) | (2,116) | (2,292) | (2,292) |
| Amortization | (-635) | (-563) | (-584) | (-584) | (-574) | (-624) |
| Net commercial borrowing | 80 | 272 | 464 | 464 | 789 | 789 |
| Bilateral accounts | -280 | -400 | 139 | 185 ) | | |
| Short-term bridging loan | -- | 371 | -367 | -371 ) | -- | -141 |
| Nonresident deposits | 155 | 380 ) | 135 | 463 ) | | |
| Other capital, net | -297 | -143 ) | | -241 ) | | |
| Errors and omissions | 78 | -435 | -- | -- ) | | |
| Overall balance | -2,175 | -1,280 | -1,497 | -1,075 | -836 | -695 |
| Fund (net) | 600 | 1,800 | 1,233 | 1,233 | ... | ... |
| Purchases | (600) | (1,800) | (1,300) | (1,300) | (...) | (200)3/ |
| Repurchases | (--) | (--) | (-67) | (-67) | (...) | (-133) |
| Reserves (increase -) | 1,575 | -520 | 264 | -158 | ... | ... |
| Exchange rate Rs/SDR | 10.295 | 10.526 | 10.791 | 10.791 | 10.791 | 10.791 |

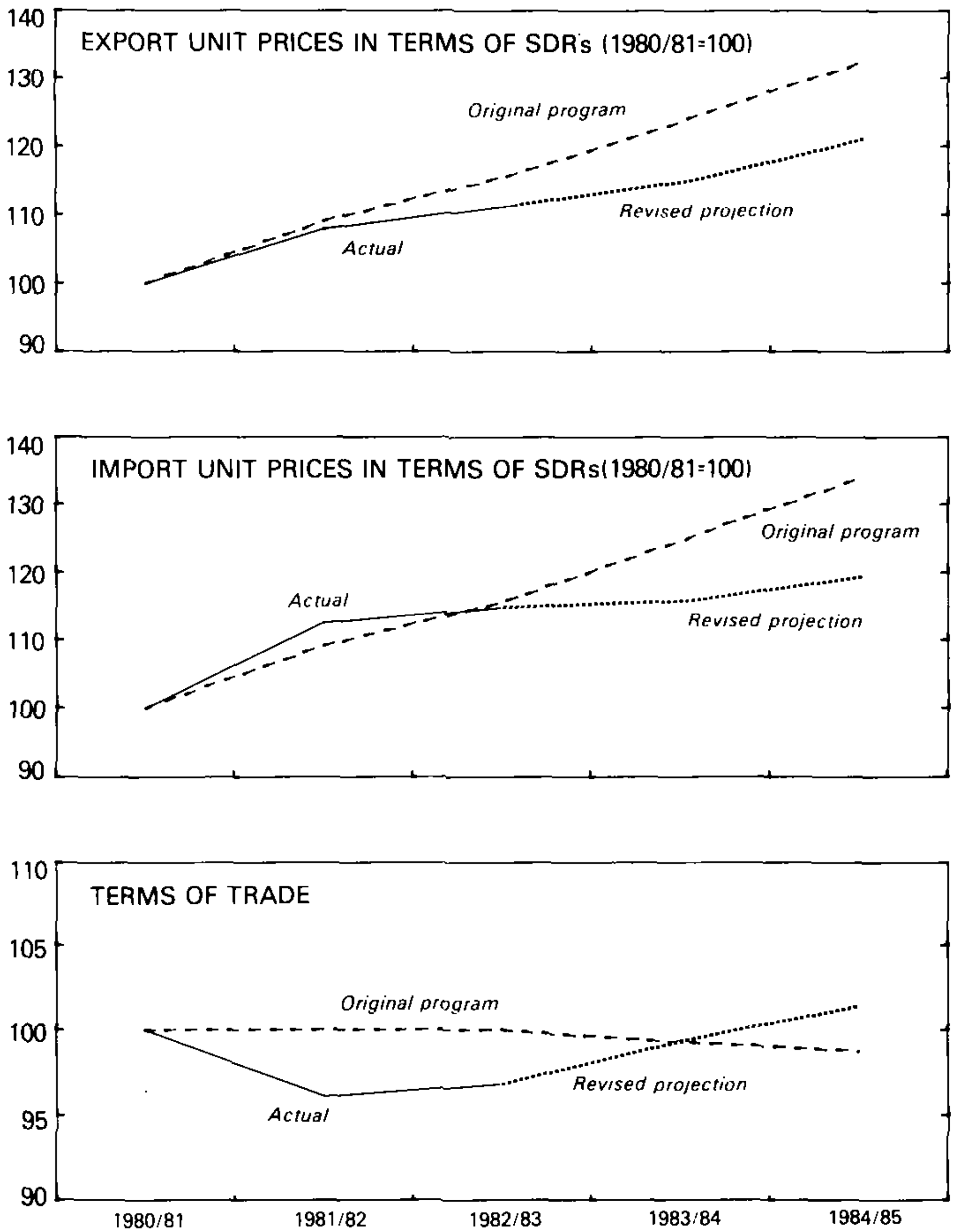
Source: Data including unprocessed information provided by the Indian authorities.

1/ Net of oil exports.
2/ Including IBRD.
3/ Covers only purchases scheduled in the 1983/84 program.

CHART 3

INDIA

# EXPORT AND IMPORT UNIT PRICES AND TERMS OF TRADE, 1980/81-1984/85




Sources: EBS/81/198, EBS/82/102, EBS/83/130, data provided by the Indian authorities and staff estimates.

2 percent in aggregate, compared with the earlier estimate of 5 percent. This would be the second successive year in which export volumes would fall significantly short of the program targets. The estimated fall in export volume of 3 percent in 1982/83 was partly the result of the shortfall in supplies in that year and was in line with a decline of similar magnitude in the volume of world trade in 1982; non-oil developing countries as a whole are estimated to have increased export volume slightly in 1982. The projected increase in India's export volume in 1983/84, even at the current reduced rate, would be higher than that projected in the latest World Economic Outlook exercise for world trade as a whole in 1983 (0.5 percent), although it would again be less than for all non-oil developing countries (4 percent).

While India's exports appear to be evolving broadly in line with world trade aggregates, certain features of India's trade make maintaining its world trade share difficult in present circumstances. India relies more heavily on markets in Western Europe and less on the United States (where the present recovery is further advanced) than many developing countries. India is also heavily dependent on export markets in Africa (where several markets have virtually disappeared because of payments difficulties), the Middle East and Eastern Europe. In particular, Eastern Europe (mainly the U.S.S.R.) accounts for a quarter of India's exports, compared with only about 3 percent for the world as a whole. A crucial factor accounting for the weaker than targeted export performance in 1983/84 is an expected cutback in exports to the U.S.S.R. These exports slowed sharply at the end of 1982/83 and have continued at a reduced level so far in 1983/84; exports to the U.S.S.R. are now estimated to decline by 9 percent in SDR terms in 1983/84 and by 12 percent in volume terms. Exports to other markets were some 8 percent higher in the first four months of 1983/84 than in the corresponding period of 1982/83, implying an increase in export volume of 5 percent; this is in line with the program target for the year for exports as a whole. Statistical problems have made it likely that recent recorded trade statistics underestimate the rates of growth in both exports and imports; U.S. import statistics record a substantial increase in imports from India in the first seven months of 1983. For these reasons it appears likely that the estimated export growth in 1983/84 could well be higher, although probably below the program estimate.

Imports are projected to increase by 2 percent in 1983/84, also somewhat more slowly than estimated earlier. The oil import bill is unchanged from the program projection; net import volume would be somewhat higher to allow a modest inventory buildup, but this would be offset by weaker prices than earlier expected. At SDR 3.5 billion and accounting for 27 percent of imports in 1983/84, oil imports are more than a quarter lower in nominal terms than in 1981/82, the first year of the program, when they accounted for 36 percent of the total; during the same period, the volume (net) of oil imports has declined by 26 per cent. Non-oil imports are now projected to increase by 12 percent in 1983/84, 2 percentage points less than estimated earlier. There are no substantial changes in imports of bulk items, which are again likely to be somewhat lower than last year, with the major exception of imports of equipment associated with the oil exploration and development program which are set to rise sharply. Imports of foodgrains are now estimated to reach SDR 0.7 billion in 1983/84, about the same as in 1982/83 and SDR 0.2 billion more than earlier projected. Imports of other than bulk items are now projected to rise by 13 percent, the same as in 1981/82, with a volume increase of about 11 percent. A reduction in the increase in the volume of general imports of about 3 percentage points from the earlier estimate is due to the weaker than expected industrial activity.

Net invisible receipts are estimated to decline in 1983/84, but the decline should not be as large as previously forecast; net receipts are estimated to total SDR 2.2 billion, some SDR 0.3 billion above the earlier estimate. The revisions take account of lower than expected net investment income payments, mainly reflecting higher earnings on international reserves, and larger remittances from Indian workers abroad. Data for 1981/82 available now for the first time reveal substantially higher remittances in that year than earlier estimated. While only fragmentary information is currently available on subsequent developments, remittances are estimated to decline in 1983/84 as previously forecast. The authorities indicate that restrictions on remittances have been imposed by some countries in the Gulf area where large numbers of Indian workers reside. Remittances have also been adversely affected by the recession in the industrial countries. Despite these indications, the projections for 1983/84 remain tentative at this stage. As a result of the above revisions, the current account deficit is now projected to be SDR 3.1 billion in 1983/84, only modestly higher in nominal terms than last year and SDR 0.3 billion less than previously projected.

Net nonmonetary capital inflows are projected to amount to some SDR 2.0 billion in 1983/84, SDR 0.3 billion more than in 1982/83 and slightly higher than earlier estimated. The most significant change relates to investment inflows by nonresident Indians. Interest rate incentives for investments in both foreign currency and rupee bank deposits by nonresident Indians were raised in the 1982/83 budget. With the fall in interest rates on international markets, the relative attractiveness of these facilities, where rates are related to the domestic rate structure and range up to 13 percent for the five-year deposits, has become pronounced. Net inflows on these accounts amounted to SDR 0.4 billion in the first five months of 1983/84, as much as for the whole of 1982/83. The authorities believe that a part of the recent inflows is of a potentially volatile nature, and point to some outflows in the most recent period. They emphasize that they would not wish to encourage short-term investments, and that to this end policies are being kept under review. Under these circumstances the estimate for nonresident Indian investments of SDR 0.5 billion in 1983/84, which is double the earlier provision, is subject to considerable uncertainty. Net capital inflows associated with bilateral payments arrangements amounted to some SDR 0.2 billion in the first five months of 1983/84 as efforts on both sides were made to reverse the earlier buildup in credit balances; bilateral balances are projected to be unchanged in the second half of the year.

No substantial changes have been made to estimates for other capital items. Net aid disbursements have been maintained at SDR 1.5 billion for 1983/84, about the same as in 1982/83. The World Bank staff believes that, reflecting the buildup in loan commitments by the Bank Group over recent years, loan disbursements could well be higher than estimated by the authorities in both 1983/84 and 1984/85. However, higher loan disbursements, which would mainly be loans from the World Bank, would be matched by increased project-related imports, and the overall balance would not change substantially.

b. Export and exchange rate policies

Export development policies have focused on improving the productive efficiency of exporters and enhancing export incentives by easing industrial regulations for export production, increasing access to imports, and ensuring export competitiveness. The 1983/84 import policy further improved exporters' access to imports by raising the entitlement for import replenishment (REP) licenses for exports of new products and to new markets, and increasing the scope for using REP licenses. In addition, import duty exemptions were expanded to cover more intermediate goods and a wider range of exporters. Additional import licenses for large trading houses were reduced, but their use was made more flexible.

Several of the measures discussed earlier in the context of industrial policy are designed also to strengthen exports, especially those relating to 100 percent export-oriented units and the upgrading of technology. Under the 100 percent export-oriented unit scheme, 311 units had been approved by mid-1983, and 32 units had commenced operation, compared with 11 units in November 1982; it is expected that the number of units in operation will rise to 70 by the end of 1983. The authorities are satisfied that substantial additional export potential is being created under this scheme. Furthermore, four additional free trade zones were recently established, bringing the total to six. Assistance under the cash compensatory system (CCS), which together with duty drawbacks is designed to compensate exporters for indirect tax payments, declined slightly in 1982/83; over recent months the scheme has been expanded to cover some additional export items and CCS rates have been increased for a number of products.

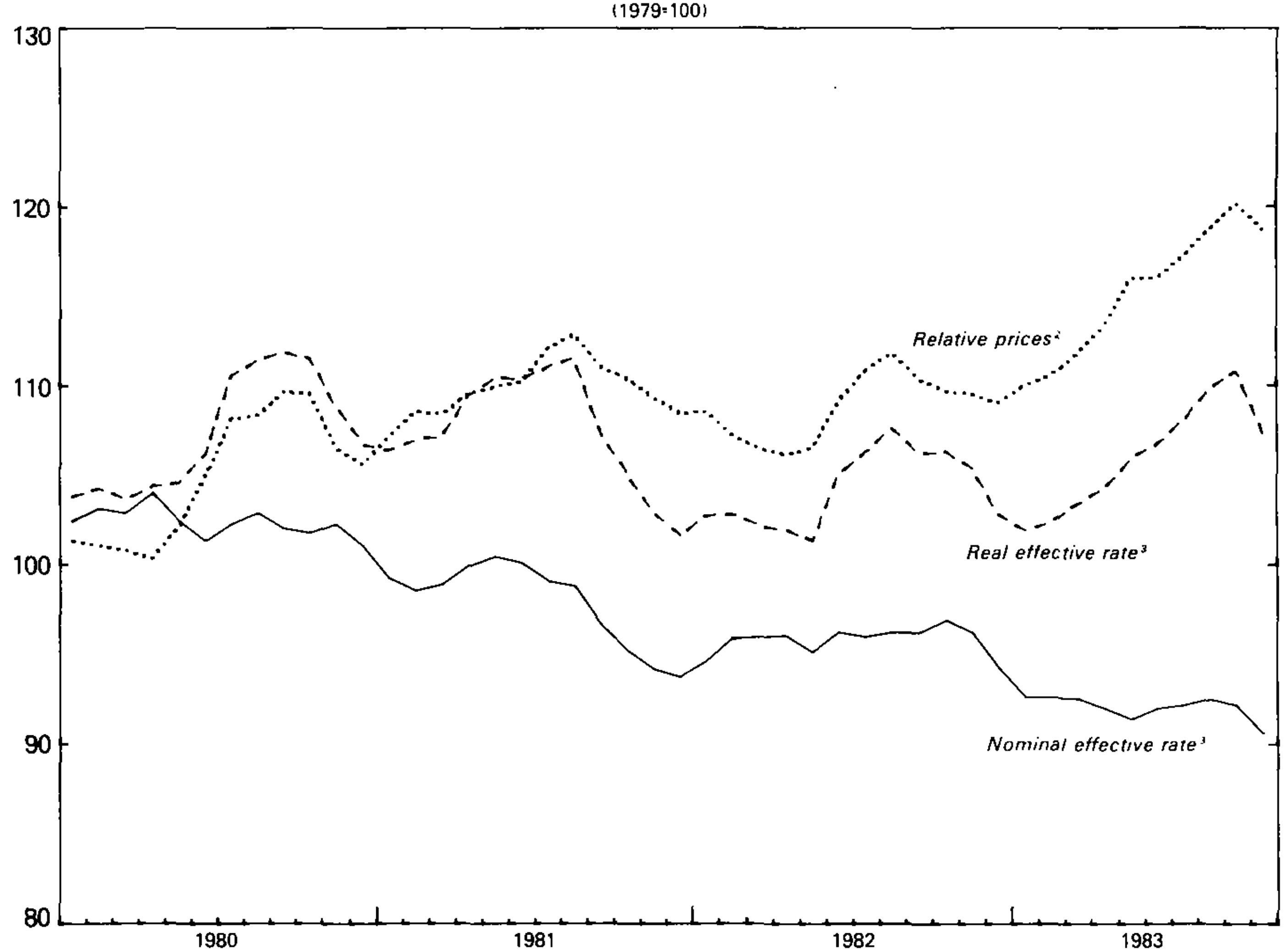
The exchange rate in real effective terms was virtually unchanged at the end of 1982/83 from 12 months earlier, despite substantial fluctuations during the year (Chart 4). In the first five months of 1982/83, the real effective exchange rate appreciated by about 5 percent as a result of faster inflation in India than abroad. Some of this appreciation reflected seasonal price developments in India, and most of the real effective appreciation was reversed in the second half as a result of a seasonal decline in prices and a 4 percent nominal effective depreciation. A similar pattern has been observed so far in 1983/84. While the nominal effective exchange rate remained broadly unchanged between March and September, the real effective rate appreciated by 6 percent, again reflecting relative price developments. In October 1983, the real effective exchange rate had appreciated by 3.5 percent (on a seasonally adjusted basis) since the beginning of the program in November 1981. In November, the rupee depreciated by about 0.6 percent in nominal effective terms; information on relative price movements are not yet available. However, the real effective exchange rate, on a seasonally adjusted basis, would still remain above the level in November 1981. The authorities indicated that exchange rate developments are being carefully monitored and that they will continue to pursue a realistic exchange rate policy in support of external adjustment. They also noted again the difficulties for exchange rate management caused by large fluctuations in the rates for major currencies.

c. Exchange and payments system

No change has been made to the exchange rate system since the last consultation, and the rupee remains linked to a basket of currencies within margins of 5 percent. 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 a bilateral payments agreement with a Fund member (Romania) which is subject to Article VIII and limits on the provision of foreign exchange for foreign travel which are maintained under Article XIV. Since the last consultation, the authorities have taken some steps to liberalize investment facilities and repatriation benefits for investments by nonresident Indians. A committee on Exchange Control Procedures recently completed its report and the Reserve Bank subsequently submitted a number of recommendations for simplifying the exchange system for consideration by the Government.

In addition to the bilateral payments arrangement with Romania, India maintains such arrangements with four nonmembers--the Soviet Union, the German Democratic Republic, Czechoslovakia, and Poland. As a result of a substantial growth in exports, mainly to the U.S.S.R., net outstanding bilateral balances shifted from approximate balance at the end of 1981 to a net asset position of about SDR 500 million at the end of 1982. Under the bilateral payments agreement with the

CHART 4
INDIA
EFFECTIVE EXCHANGE RATES INDICES, 1980-83[1]
(1979=100)




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

U.S.S.R. there is a tacit understanding that actual trade flows will be adjusted to prevent the emergence of large imbalances and to correct for past imbalances. Accordingly, the net asset position on bilateral accounts was reduced to about SDR 242 million by end-August 1983. The staff stressed the problems associated with an export growth strategy that relied too heavily on bilateral trade. In this context, the Indian authorities stated that in part the decline in exports to bilateral markets reflected temporary delays. However, efforts were being made to find alternative markets for exports affected by lower demand from bilateral partners. The bilateral payments agreement with Romania does not expire until December 1985. The Indian authorities stated that it was not possible at present to eliminate this payments restriction, but they agreed that it should not continue indefinitely.

d. External borrowing

The policy of increasing recourse to international capital markets mainly for project financing is being implemented effectively. At the same time, the Government is mindful of preventing an excessive debt service burden and scrutinizes carefully all external borrowing, including borrowing by the private sector, which is subject to Government approval. Total commitments of commercial loans, which rose from SDR 0.9 billion in 1981/82 to SDR 2.1 billion in 1982/83 (including SDR 0.5 billion for a single power project), were projected to amount to SDR 1.7 billion in 1983/84. Total commitments in the first half of 1983/84 exceeded SDR 0.7 billion, including SDR 0.3 billion of suppliers' credits and other loans without government guarantee. Loans within the maturity range of 1 to 12 years subject to the 1983/84 ceiling of SDR 1.5 billion amounted to SDR 412 million during the first seven months of the year; those with maturity between 1 and 5 years subject to the subceiling of SDR 200 million amounted to SDR 15 million during this period. Total commitments of commercial loans in 1983/84 are expected to come close to the original estimate. However, commitments of government and government-guaranteed loans subject to the ceiling are now estimated to be lower at about SDR 1.0 billion, as several public sector enterprises have shifted their financing to suppliers' credits and other loans without government guarantee.

Largely because of payments to the Fund and on loans on commercially related terms, debt service payments rose by 26 percent in 1982/83 and an estimated 21 percent in 1983/84 (Table 7). As a proportion of current receipts, total debt service payments would rise from less than 10 percent in 1981/82 to about 15 percent in 1984/85. Total debt as a proportion of GDP has risen somewhat, and interest payments have doubled over the past two years, although they remain well below 1 percent of GDP.

Table 7. India: External Debt and Debt Service, 1981/82-1984/85

(In millions of SDRs)

| | 1981/82 | 1982/83 | 1983/84 | 1984/85 |
|---|---|---|---|---|
| Outstanding external debt (public and private) | 17,497 | 21,737 | 24,321 | 26,545 |
| Concessional loans 1/ | (15,486) | (17,017) | (18,271) | (19,639) |
| Medium- and long-term commercial loans | (820) | (1,348) | (1,812) | (2,601) |
| IMF 2/ | (866) | (2,666) | (3,899) | (3,966)3/ |
| Short-term debt | (325) | (706)4/ | (339) | (339) |
| Debt service | 1,194 | 1,502 | 1,822 | 2,090 |
| Interest payments | (425) | (694) | (852) | (1,000) |
| Amortization | (769) | (808) | (970) | (1,090) |
| Debt and debt service ratios | | | | |
| Debt service/current receipts | | | | |
| Including IMF | 9.7 | 12.3 | 14.4 | 15.0 |
| Excluding IMF | 9.5 | 11.2 | 11.9 | 11.9 |
| Commercial debt service/ current receipts | 2.6 | 3.1 | 3.9 | 4.2 |
| Total debt/GDP | 12.2 | 14.7 | 14.7 | 14.3 |
| Interest payments/GDP | 0.3 | 0.5 | 0.5 | 0.5 |
| Memorandum items: | | | | |
| GDP (in billions of SDRs) | 143.1 | 147.8 | 165.0 | 185.3 |
| Export volume growth | 6 | -3 | 2 | 8 |
| Increase in export unit prices (SDR terms) | 6 | 3 | 3 | 5 |
| Current receipts (in millions of SDRs) | 12,318 | 12,260 | 12,622 | 13,891 |
| Current account deficit/GDP (in percent) | 2.0 | 2.0 | 1.9 | 1.6 |
| Average interest rate on new concessional loans | 3.4 | 5.0 | 5.0 | 5.0 |
| Average interest rate on new commercial loans | 15.8 | 11.9 | 10.0 | 10.0 |

Sources: Data provided by the Indian authorities; World Bank Debt Reporting System; and staff estimates.

1/ Includes Trust Fund loan of SDR 529 million provided in 1980.

2/ Excludes Trust Fund loan.

3/ Based on currently scheduled purchases only.

4/ Includes a short-term bridging loan of about SDR 370 million which was repaid in 1983/84.

## IV. Medium-Term Balance of Payments Adjustment Prospects

As the period of the arrangement draws toward its end, it is timely to review progress in the area of external adjustment, looking beyond the immediate targets and prospects for the remainder of the program and into the second half of the 1980s. On present prospects, the current account deficit remains set to decline by somewhat more than originally targeted during the remainder of the program to about 1.6 percent of GDP by 1984/85. The authorities have begun preparatory work on the macroeconomic framework for the Seventh Five-Year Plan to begin in 1985/86. At this stage this work has not progressed to a point where they are in a position to present a clear or quantified indication of balance of payments objectives, policies or prospects for this period. They reaffirm, however, their intention to maintain policies needed to reach a sustainable balance of payments position while continuing to pursue their development and social objectives.

Following discussions with the authorities and the World Bank, two illustrative scenarios have been developed for current account developments extending through the end of the 1980s. The first, following along the lines of earlier projections made by the staff, is an adjustment-oriented scenario which shows a gradual but persistent reduction in the current account deficit as a proportion of GDP. It presupposes that after the program period export volume growth reaches the target of 8 percent per annum. In view of the recent shortfalls in export performance, this is an ambitious target which could only be achieved with a continued strengthening of policy efforts. In particular, it would be essential to ensure adequate export competitiveness and profitability. However, with a further improvement in policy support such growth would be feasible, assuming that by that time growth in the world economy had become more buoyant than recently and that protectionist barriers to India's exports do not intensify. The recent policy steps to promote exports and to strengthen efficiency would be expected to increase exports with a lag. Also, policies working on the supply side would have a positive impact on export growth.

In contrast, import volume is contained to an average increase of 5 percent per annum, broadly in line with the likely growth of the economy. It is envisaged that the positive impact on import growth of further import liberalization would be offset by adjustment policies aimed at containing aggregate demand and the further replacement of imports by domestic production of oil and other items where India is an efficient producer. Under this scenario, the current account deficit would decline gradually to around 1 percent of GDP by the end of the decade (Chart 5). Based on recent experience this outcome appears quite feasible, but it would require a continuing commitment by the authorities to follow a policy program which is aimed at strengthening the external sector.

The alternative scenario assumes a somewhat more aggressive approach aimed at maintaining India's access to foreign savings, i.e., the current account deficit, at roughly the same proportion to GDP as at the end of the program period in order to pursue faster economic development. Imports would grow by up to 7 percent per annum in volume terms to support more rapid growth. However, in view of the constraints which will limit India's capacity to expand its share in foreign markets, it is unlikely that, even with larger increases in domestic supplies, there can be significantly faster growth in exchange earnings. Under this scenario, export growth would be little or no faster than the ambitious target in the earlier case.

The characteristics of the alternative scenarios can be assessed in terms of their implications for the capital account of the balance of payments and the debt servicing burden. In the following analysis, it is assumed that the scope for drawing down international reserves is limited, and that reserves equivalent to at least three months of imports are maintained throughout; it is also assumed that miscellaneous, private, and short-term capital flows are small. The first point to be made, common to both scenarios, is that external assistance is unlikely to increase in relation to GDP and that its average terms will harden over the coming years; based on estimates prepared by the World Bank, net aid disbursements are projected to decline slightly to less than 1.0 percent of GDP during the second half of the 1980s. The second common factor is the shift in Fund financing under the extended arrangement; the last purchases will be in 1984/85 and repurchases begin in the following year and rise to 0.3 percent of GDP in 1987/88 and 1988/89 before receding.

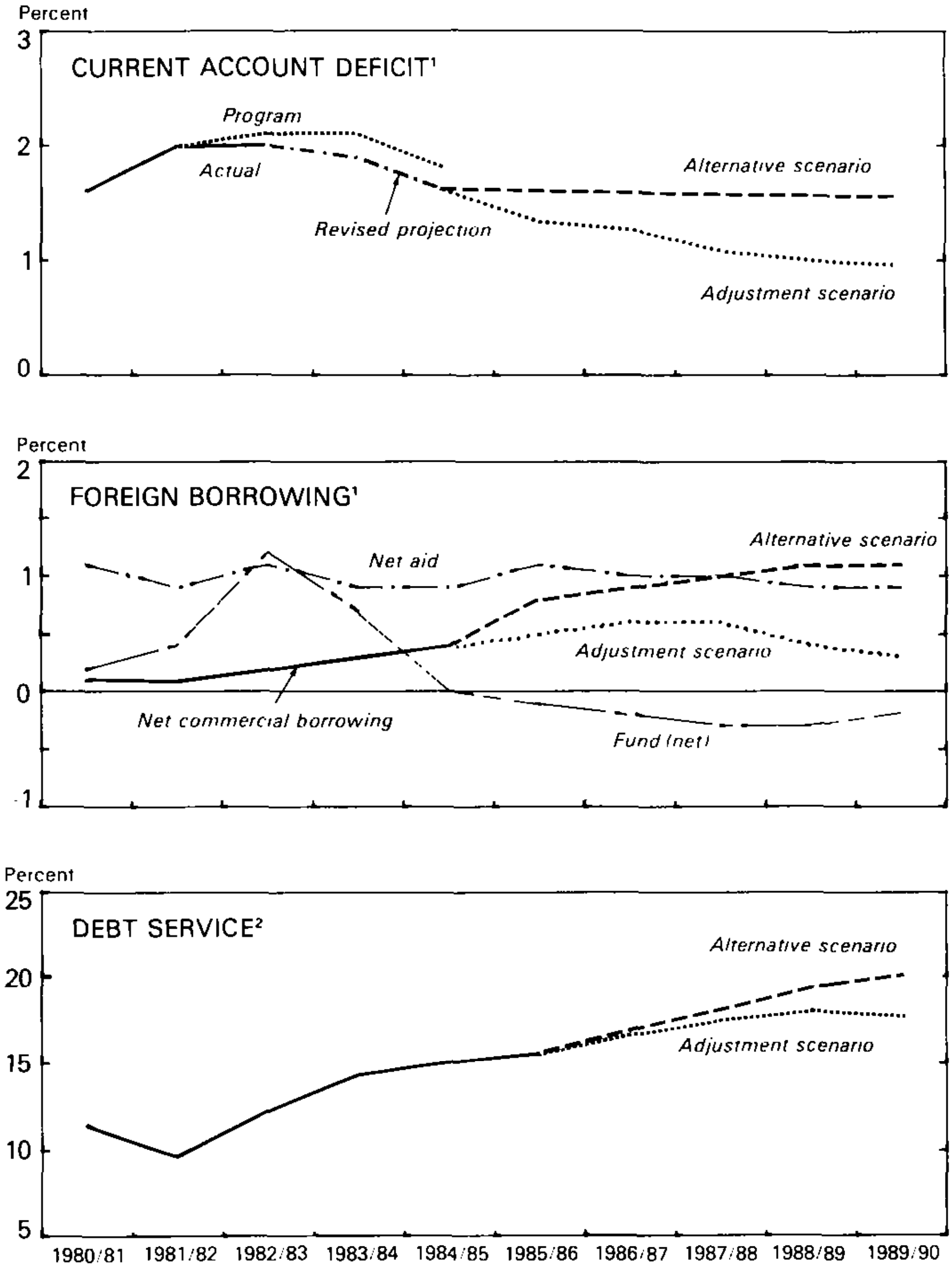
Commercial borrowing (net) is assumed to close the financing gap in each scenario. 1/ Even under the first, adjustment-oriented, scenario, the gross commercial borrowing requirement would rise from 0.5 percent of GDP in 1983/84 to 0.8 percent in 1987/88 and remain at the same level in nominal terms thereafter, although declining as a proportion of GDP. Under the alternative scenario, gross commercial borrowing would grow sharply throughout the period, reaching 1.2 percent of GDP by 1987/88 and 1.5 percent by 1989/90. Under the first scenario, the ratio of debt service payments (including the Fund) to current account receipts would rise from 14.4 percent in the current year to a peak of 18 percent in 1988/89 before gradually receding. Under the alternative scenario, the debt service ratio would follow a similar path until 1987/88, but by 1989/90 would reach over 20 percent, some 2.4 percentage points higher than in the first case, and the ratio would continue to rise and the gap to widen in the 1990s. The

1/ The following average terms of commercial loans are assumed: 10 percent interest (5 percent in real terms), two-year grace period, and repayment within seven years of drawing.

CHART 5

INDIA

# MEDIUM-TERM BOP SCENARIOS, 1980/81-1989/90




Sources: Data provided by the Indian authorities and staff estimates.
[1] In percent of GDP.
[2] In percent of current receipts.

larger commercial borrowings necessary in this case would affect the debt service ratio with a lag because of the assumed grace periods associated with commercial loans.

It appears that a policy approach which aims to maintain the current account deficit unchanged from the level likely at the end of the program period would create external borrowing and debt servicing difficulties at the end of the decade and beyond. If adjustment policies are continued and lead to a gradual reduction in the current account deficit to GDP ratio during this period as envisaged in the first scenario, external financing would remain manageable. However, even under this scenario the debt service ratio would increase beyond the peak of 16 percent originally estimated when the arrangement was approved. This is both due to slower than expected growth in current receipts, partly because of reduced world inflation, and harder average terms of borrowing which reflect, in part, IDA financing difficulties; it is expected that reduced access to IDA credits will be offset by increased IBRD and other borrowing on less favorable terms.

The authorities have on numerous occasions made public their determination to avoid a debt servicing profile which would rise considerably beyond that implied by the first scenario. The authorities note that it would be possible to finance a somewhat larger current account deficit without affecting the debt servicing profile if foreign equity investment in India increases over the coming years. India has excellent standing in international credit markets and appears to have assured access to increased amounts of commercial financing in the future; the authorities point out, however, that the present market willingness to lend to India is partly a reflection of prudent policies by India on the amount of commercial borrowing undertaken. The authorities' policy remains that commercial borrowing is generally suitable for projects for which concessional financing is not available and whose viability and ability to service the debt is assured. They note that the public investment program during the remainder of the decade will inevitably continue to be heavily oriented toward projects in basic infrastructure for which commercial financing would not be appropriate in many cases. Oil and gas development is an area where commercial financing is seen as being most suitable, and the authorities anticipate that the magnitude of future commercial borrowings, and equally growth and balance of payments prospects, will hinge heavily on the scope for development in this sector that their exploration programs reveal.

It is appropriate to assess the costs that are involved in further reducing the current account deficit as a proportion of GDP to about 1 percent during the remainder of the decade as indicated under the first scenario. There would be concern if reducing the current account deficit to such a low level resulted in a considerable setback to development and the scope for improving living conditions for hundreds of millions of the world's poorest citizens. An analysis of developments over recent years suggests that this need not necessarily be so. It must be noted from the outset that a part of the reduction is forced by a stagnant or declining net aid transfer and a substantial hardening of the terms of assistance. The authorities note that their adjustment problems would ease and development prospects would improve if adequate flows of concessional development assistance on appropriate terms were made available. At the same time, the contribution of foreign financing in India's development effort has been relatively small: net aid receipts financed some 6 percent of public Plan expenditures in 1982/83, and total foreign savings covered 8 percent of gross capital formation.

Developments under the extended arrangement program reveal some progress toward balance of payments adjustment, which has been achieved without a cutback in investment. Indeed, aggregate investment has increased from 23.8 percent of GDP in 1980/81 to an estimated 26.5 percent in 1983/84 (Chart 6). This has been made possible by a step-up in domestic savings. Under the program, public savings have risen progressively from 3.6 percent of GDP in 1980/81 to an estimated 5.6 percent in 1983/84, while the rate of private savings has been maintained at 18-19 percent. However, increased public savings have been broadly matched by increased rates of public investment, and public sector borrowing from other sectors has remained at an historically high rate of 7-8 percent of GDP. Thus, despite the success of efforts made under the program to raise public savings, the public sector has not contributed directly to an improvement on external account.

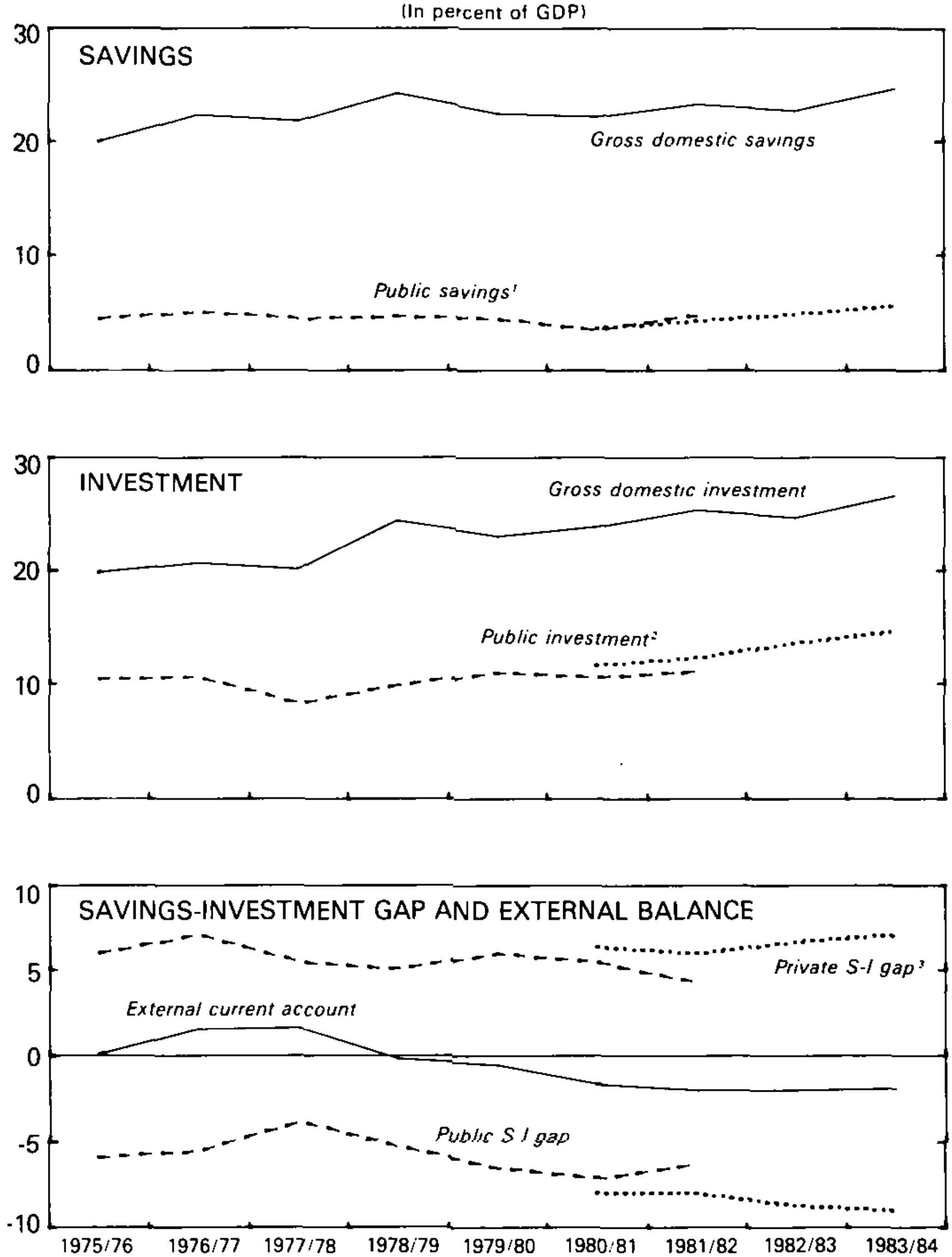
For the period following the extended arrangement, there appears to be scope to continue efforts to increase the rate of public savings. External adjustment during this period would be enhanced if public investment was constrained to rise by less than any further increase in public savings; it appears that this could be achieved without prejudice to maintaining growth. Gross capital formation, which was about 12 percent of GDP in the early 1950s, rose to about 20 percent by the mid-1970s and has since risen considerably further. Aggregate domestic savings have risen similarly and the present savings rate of 24 percent of GDP is already high. While there is scope for some further rise in the savings rate, this is limited; in time increases are likely to be more difficult to achieve. Looking to the longer term, it would appear that the focus of policies must shift to improving the efficiency of investment, which has fallen in aggregate, and to rely less on efforts to further increase the ratio of investment to GDP. This underscores the fundamental importance of continuing structural policy changes, along the lines followed during the extended arrangement, aimed at reducing import restrictions, eliminating excessive constraints on business investment and activity, and reducing distortions associated with inflexible pricing policies.

CHART 6

INDIA

# SAVINGS, INVESTMENT AND EXTERNAL BALANCE, 1975/76-1983/84

(In percent of GDP)




Source: Data provided by the Indian authorities.

[1] National accounts definition for 1975/76-1981/82, public savings for Plan financing for 1980/81-1983/84.

[2] National accounts definition for 1975/76-1981/82, Plan expenditure for 1980/81-1983/84.

[3] Derived as residual

## V. Staff Appraisal

India's economy is emerging from the difficulties caused by severe drought in 1982 and although some areas of difficulty remain, the outlook is generally favorable. Economic growth is set to recover strongly, and an increase in GDP of 6-6.5 percent as envisaged earlier remains within reach. Agricultural growth seems likely to rebound even more strongly than earlier expected, aided by unusually favorable weather during the monsoon season. Foodgrain production is likely to set new records and production of most other agricultural items should also increase substantially. Agricultural growth provides a firm underpinning for general economic progress.

Contrary to expectations at the beginning of the year, industrial activity has continued to be relatively subdued. Weak domestic demand as a result of last year's income shortfall appears to be the principal cause. However, supply cutbacks deriving from production problems in electric power, coal, and steel have had a direct effect in reducing growth and, in the case of electric power, shortages have led to discernible adverse effects in other sectors. Prospects are for an improvement in industrial growth as increased incomes stimulate demand, although with a lag which may be extended. Also, it is by no means certain that infrastructure, especially electric power, can respond sufficiently to support a rapid industrial recovery. In these circumstances, while the limited actions directed toward particular industries should be useful, more general or substantial steps to stimulate recovery would bear the risk of aggravating inflationary conditions.

Wholesale price inflation has increased to about 10 percent and consumer price inflation is somewhat higher. Part of the recent price increases derives from developments in food markets and the delayed impact of drought, and prices should decline seasonally over coming months in view of the good monsoon and rising food stocks, aided by sizable food imports. However, underlying price pressures appear to have increased and it seems likely that inflation will remain significantly above the program target of 7 percent by year's end. Under these circumstances, the first priority of policy must be directed toward containing inflation. Monetary growth over the past six months has been excessive, largely reflecting developments on external account which have been significantly less contractionary than expected, while credit developments, both for the Government and the commercial sector, have evolved closely in line with the program projections. Monetary policies have been progressively tightened during 1983/84, but the banks have had adequate resources to meet most credit demands. Nevertheless, the measures taken have had the important effect of limiting the banks' capacity to expand credit in the future and are likely to become more binding if reserve money growth slows and credit demand strengthens as expected. For the period ahead, credit policies must be adapted flexibly to ensure that monetary growth is reduced as needed to promote the subsidence of inflation. The recent introduction of a 10 percent incremental reserve ratio is an appropriate step and provides an important signal to the economy of the priority the authorities attach to maintaining financial balance.

Net credit to Government has evolved in line with the program projections so far in 1983/84 and it appears that the ceilings for the remainder of the year can be met without undue difficulty. Public savings appear set to increase strongly to some 5.6 percent of GDP, well in excess of the program target, and resources available for Plan financing should considerably exceed the budgeted amount. In this situation there would be scope to implement fiscal policy, in conjunction with firm commercial credit policies, so as to contribute toward reducing monetary growth and inflationary tendencies. The favorable prospects for public finances stem largely from additional oil sector revenues which were not envisaged earlier. This has masked other areas of weakness. The Central Government budget deficit will again be higher than envisaged in the program and budgetary savings are likely to be below the already modest program target, partly because of the adverse impact on the budget of inflation, tax concessions and higher fertilizer subsidies. The profits of Central public enterprises (other than from oil) have been eroded by cost increases and inflexible pricing and continue to be affected by inefficiencies. There thus remains considerable scope for more broad-based efforts to strengthen the financial position of the Centre. Over the longer term, the external adjustment effort would be strengthened if a part of the yield from future resource mobilization measures were applied to reduce the Centre's overall borrowing requirement and its recourse to the banking system.

Financial problems at the State level are more severe. Additional State resource measures are well below the target for 1983/84 at this stage, despite the abundant opportunities for raising resources which exist in the electric power, irrigation, and road transport fields, and State savings are likely to be considerably below the program target. Developments so far during the extended arrangement reveal little discernible progress in strengthening State finances. The States will probably be able to finance aggregate Plans which will not be much larger in real terms than last year. Resolute steps to increase resources of the States are essential in view of their critical investment responsibilities. The already strong consultative and financial links between the Centre and States need to be reinforced, or new mechanisms found, to ensure that national priorities are not prejudiced by difficulties experienced by the States in mobilizing resources.

While progress toward increasing capacity in several key sectors has been generally satisfactory so far in 1983/84, some fundamental difficulties remain. Real investments in certain key sectors, especially electric power and irrigation, continue to be inadequate and, in general, investments in key sectors have not been adequately protected from the impact of real resource shortfalls. The Government has been able to allocate substantial additional amounts for Plan expenditure in priority sectors at the Central level in 1983/84 as indicated when the program was prepared. However, additional resources have also been directed toward other areas and there is no parallel increase for key sectors at the State level.

A number of policy changes have been made over the past year to liberalize import restrictions and reduce industrial regulations. The steps taken since the program for 1983/84 was prepared continue in this direction; recent initiatives to strengthen the technological base of the textile and automobile industries, and to redirect the electronics industry, appear well conceived. It is to be hoped that experience gained under the scheme allowing limited sales in the domestic market by 100 percent export-oriented units will facilitate further liberalization so that the potential benefits to efficiency deriving from the scheme can be fully realized. It appears that the import liberalization measures introduced in 1983/84 are not, as yet, having the full impact originally expected. This partly reflects the weakness in business conditions, but import policy must be implemented so as to ensure that the intent of the changes, to promote efficiency and competitiveness, is realized. Flexible pricing policies are paying dividends in several important areas, notably steel and cement. The recent increase in the paddy procurement price also appears appropriate to the circumstances; it will be important to ensure that the established policy of increasing issue prices to limit the food subsidy is maintained. The reduction in fertilizer prices in July appears to have contributed to increasing fertilizer use and the liquidation of old stocks, but has had the undesirable effect of significantly increasing the fertilizer subsidy. The report of the committee which is examining all aspects of fertilizer pricing is awaited, and an appropriate, economically based, decision should not be long delayed. Also, a coal price adjustment is urgently needed to offset rising costs and restore adequate profitability.

Export performance weakened considerably in 1982/83, and developments during the first months of the current year indicate that the sluggishness in aggregate exports continues. Although the weak performance last year mirrored subdued demand and the contraction in world trade, and partly reflected a domestic shortfall in supplies, India's performance was less satisfactory than that of other non-oil developing countries as a group. The continued export sluggishness in 1983/84 is mainly due to a decline in exports under bilateral payments agreements with the result that India's overall performance is expected to be less satisfactory than that of similar countries. This serves to highlight the large contribution bilateral trade has made to export growth over recent years, and the dangers in relying too heavily on bilateral payments agreements. Although exports to other markets are projected to grow at a reasonable rate in 1983/84, the growth in aggregate export volume has been unsatisfactory for two successive years when judged against the imperatives for adjustment. Rapid growth in exports is a fundamental objective of the adjustment program. While important measures directed toward export development have already been implemented during the program period, policy measures directed toward this end should be strengthened. In this context, the recent adjustment of the exchange rate is a welcome development. However, further measures will be required in the period ahead if exports are to reach the volume targets envisaged for 1984/85 and over the medium term.

Overall balance of payments developments were more favorable than expected in the first half of 1983/84. More recent developments and current prospects indicate that the external position will be weaker in the second half, but both the current account and overall deficits appear likely to be lower by some SDR 0.3 billion than projected when the program for 1983/84 was approved. The current account deficit in 1983/84 would be 1.9 percent of GDP, less than the program target of 2.1 percent, and the overall deficit would be SDR 1.1 billion. The deficits tentatively projected for 1984/85, the final year of the program, would also be lower than the program targets. However, the likely improvement in balance of payments performance in these years would not substantially alter the external position over the four-year period 1981/82 to 1984/85 within which the EFF falls. Looking toward the future, policies will need to be directed toward reducing the current deficit somewhat further in the years immediately following the end of the arrangement in order to accommodate heavy debt service payments falling due and ensure long-term external viability. Perseverance with the adjustment strategy followed successfully over recent years will be called for, especially in the areas of export development, public finance discipline, and the improvement of economic efficiency.

Developments and policies in 1983/84 indicate that, taken overall, considerable progress continues to be made toward the objectives of the program.

It is recommended that the next Article IV consultation with India be held on the standard 12-month cycle.

## VI. Proposed Decisions

The following draft decision concluding the 1984 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 1984 Article XIV consultation with India, in the light of the 1984 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/84/.... 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 review contemplated in paragraph 3(c) of the decision on the program for 1983/84 under the extended arrangement for India (EBS/83/130) and in paragraph 3 of the letter dated June 8, 1983, 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, 1984.

India: Fund Relations
(As of November 30, 1983)

| | |
|---|---|
| Date of membership: | December 27, 1945. |
| Status: | Article XIV. |
| Old quota: | SDR 1,717.5 million. |
| New quota: | SDR 2,207.7 million. |
| Fund holdings of rupees: | SDR 4,885.9 million (284.5 percent of old quota), including compensatory financing purchases of SDR 232.8 million (13.6 percent), and purchases of SDR 3,300 million (192.1 percent) under the extended arrangement which include SDR 1,650 million (96.1 per cent) of borrowed resources. Excluding purchases under the Compensatory Financing Facility, Fund holdings were SDR 4,653.0 million (270.9 percent of quota). |
| SDR position: | Holdings amounted to SDR 54.6 million, or 8.0 percent 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 percent margins. The intervention currency is pound sterling. The middle rate as of November 30, 1983 was Rs 15.25 = pound sterling 1. |
| Last Executive Board discussion of the extended arrangement: | The Program for 1983/84 (EBS/83/130, 6/24/83) was approved on July 22, 1983. |

(Continued)

India: Fund Relations (Concluded)
(As of November 30, 1983)

Last Article IV consultation: Article IV consultation and EFF review discussions were held during November 1-11, 1982. The staff report (EBS/83/16, 1/20/83) was discussed by the Board on February 18, 1983, and the following decision No. 7327 - (83/32) was adopted:

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/83/28 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.

Financial Relations with World Bank Group
(As of September 30, 1983)

| IBRD/IDA Lending Operations | (In millions of U.S. dollars) | | |
|---|---|---|---|
| | IBRD | IDA | Total |
| Loans/credits fully disbursed | 1,688.0 | 4,745.9 | 6,433.9 |
| Present commitments 1/ | | | |
| Agriculture | 493.2 | 2,896.1 | 3,389.3 |
| Power | 1,191.6 | 1,909.0 | 3,100.6 |
| Energy | 787.8 | -- | 787.8 |
| Industry | 653.5 | 444.8 | 1,098.3 |
| Transportation | 225.0 | 469.2 | 694.2 |
| Water supply and sewerage | -- | 429.4 | 429.4 |
| Telecommunication | 120.0 | 266.8 | 386.8 |
| Other | 24.1 | 367.0 | 391.1 |
| Subtotal | 3,495.2 | 6,782.3 | 10,277.5 |
| Total fully disbursed and present commitments | 5,183.2 | 11,528.2 | 16,711.4 |
| Repayments | 1,251.2 | 136.1 | 1,387.3 |
| Total now held by Bank | 3,932.0 | 11,392.2 | 15,324.1 |
| Total undisbursed (excluding loans and credits not yet effective) | 2,100.5 | 4,078.8 | 6,179.3 |
| IFC investment now held | | | 119.7 |

1/ Includes effective loans and credits and those approved as of September 30, 1983.

## India

### Basic Data 1/

| | |
|---|---|
| Area: | 3.27 million sq. kms. |
| Population: | 693 million (1981/82) |
| Annual rate of population increase: | 2.2 percent |
| Old quota: | SDR 1,717.5 million |
| New quota: | SDR 2,207.7 million |
| Outstanding purchases: | SDR 3,532.8 million (CFF: SDR 232.8 million and EFF: SDR 3,300 million) as of end-November 1983 |
| Fund holdings of Indian rupees: | 284.5 percent of old quota, as of end-November 1983 |
| SDR holdings: | SDR 54.6 million, or 8.0 percent of net cumulative allocation as of end-November 1983 |
| Exchange rate: | Linked to a basket of currencies within 5 percent margins. The intervention currency is pound sterling. The middle rate as of November 30, 1983 was Rs 15.25 = pound sterling 1 |
| Net national product (1981/82) (at factor cost): | SDR 117.8 billion (Rs 1,212.4 billion) |
| NNP per capita (1981/82): | SDR 170 |

Percentage of GDP 2/

| | 1978/79 | 1979/80 | 1980/81 | 1981/82 | 1982/83 3/ | 1983/84 4/ |
|---|---|---|---|---|---|---|
| Exports of goods | 5.7 | 5.8 | 5.1 | 5.1 | 5.0 | 4.7 |
| Imports of goods | 7.6 | 8.9 | 9.8 | 9.3 | 8.6 | 7.9 |
| Foreign aid (net) | 0.7 | 0.7 | 1.1 | 0.9 | 1.1 | 0.9 |
| Total tax revenues 5/ | 15.9 | 16.5 | 19.5 | 20.9 | 23.2 | 23.9 |
| Total government expenditures 5/ | 28.4 | 29.1 | 28.7 | 29.6 | 34.4 | 33.3 |
| Gross domestic savings | 24.3 | 22.5 | 22.2 | 23.3 | 22.7 | 24.6 |
| Gross domestic capital formation | 24.4 | 23.0 | 23.8 | 25.3 | 24.7 | 26.5 |
| Broad money (money plus quasi-money) | 41.9 | 46.1 | 40.7 | 40.0 | 43.3 | 43.7 |

(Continued)

India

Basic Data (Concluded)

Annual Percentage Changes in Selected Economic Indicators

| | 1978/79 | 1979/80 | 1980/81 | 1981/82 | 1982/83 3/ | 1983/84 4/ |
|---|---|---|---|---|---|---|
| Real GNP 6/ | 5.6 | -5.0 | 6.9 | 5.2 | 2.0 | 6.0-6.5 |
| Real NNP 6/ | 5.1 | -5.4 | 8.0 | 5.1 | ... | ... |
| Real NNP per capita 6/ | 2.5 | -7.5 | 5.7 | 2.8 | ... | ... |
| NNP at current prices 6/ | 6.7 | 7.7 | 20.6 | 13.8 | ... | ... |
| Agricultural production | 3.4 | -15.5 | 15.3 | 5.5 | -3.0 | ... |
| Foodgrain production | 4.3 | -17.1 | 18.1 | 2.7 | -4.0 | ... |
| Industrial production | 7.6 | -1.4 | 5.6 | 8.6 | 3.8 | 3.6 7/ |
| Total tax revenues 5/ | 17.3 | 13.8 | 12.2 | 21.7 | 13.8 | 14.6 |
| Total government revenues and grants 5/ | 16.6 | 12.9 | 9.0 | 23.2 | 17.3 | 17.7 |
| Total government expenditures 5/ | 17.6 | 12.7 | 18.1 | 18.7 | 22.4 | 10.8 |
| Money | 19.7 | 15.8 | 16.3 | 6.8 | 14.6 | 15.5 8/ |
| Quasi-money | 22.2 | 18.6 | 20.1 | 16.9 | 16.6 | 17.5 8/ |
| Broad money | 21.1 | 17.4 | 18.5 | 12.7 | 15.8 | 16.7 8/ |
| Bank credit to commercial sector | 19.5 | 20.8 | 18.4 | 18.7 | 19.3 | 20.5 8/ |
| Bank credit to Government | 18.3 | 23.8 | 29.1 | 19.1 | 14.9 | 14.6 8/ |
| Exports of goods in SDRs | -0.6 | 11.1 | 9.3 | 13.0 | 0.5 | 3.0 7/ |
| Imports of goods in SDRs | 29.9 | 28.9 | 35.0 | 7.4 | -3.7 | -11.0 7/ |
| Wholesale price index (period average) | -- | 17.1 | 18.2 | 9.2 | 2.5 | 8.4 8/ |
| Consumer price index (period average) | 2.2 | 8.8 | 11.4 | 12.5 | 7.8 | 12.6 7/ |
| Trade-weighted effective exchange rate (period average)9/ | -5.1 | 1.6 | 0.2 | -4.2 | -2.1 | -4.5 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/ Percentage change during April-July over the corresponding period a year earlier.
8/ 12-month percentage change at end-September 1983.
9/ Minus sign indicates depreciation of the rupee.
10/ Percentage change during April-October over the corresponding period a year earlier.