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November 23, 1992

To: Members of the Executive Board

From: The Secretary

Subject: India - Selected Background Issues

This paper provides background information to the staff report on the 1992 Article IV consultation discussions with India and the second review under its stand-by arrangement, which was circulated as EBS/92/175 on November 6, 1992.

Mr. Rajcoomar (ext. 38598) or Mr. Teja (ext. 37338) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

# INDIA

## Selected Background Issues

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Approved by the Central Asia Department

November 19, 1992

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| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 |
|---|---|---|---|---|---|
| | | | (Annual percentage change) | | |
| National income and prices | | | | | |
| Real GDP at market prices | 4.9 | 9.7 | 5.0 | 5.6 | 2.5 |
| Nominal GDP at market prices | 13.9 | 18.8 | 12.1 | 16.0 | 14.0 |
| Consumer prices (end-period) | 9.8 | 8.6 | 6.6 | 12.1 | 12.8 |
| Wholesale prices (end-period) | 10.7 | 5.7 | 9.1 | 10.3 | 13.0 |
| Industrial production index | 7.3 | 8.7 | 8.6 | 8.4 | 0.1 |
| External sector (on the basis of U.S. dollars) | | | | | |
| Exports, f.o.b. | 21.4 | 12.8 | 18.8 | 9.1 | -1.9 |
| Imports, c.i.f. | 11.8 | 19.3 | 4.6 | 5.8 | -19.5 |
| Non-oil | 7.5 | 23.5 | 1.6 | 6.9 | -32.7 |
| Oil | 41.7 | -3.0 | 24.6 | 60.1 | -11.0 |
| Export volume | 14.4 | 11.3 | 17.5 | 3.7 | -3.5 |
| Import volume | -2.3 | 8.2 | 4.4 | -2.2 | -14.7 |
| Terms of trade | -7.2 | -8.0 | 0.9 | -2.8 | 7.6 |
| REER (end of period) | -3.1 | -10.2 | -7.0 | -9.6 | -18.1 3/ |
| Central Government budget | | | | | |
| Revenue and foreign grants | 8.6 | 16.3 | 13.1 | 10.2 | 24.2 |
| Expenditure and net lending | 8.4 | 16.1 | 18.9 | 13.3 | 8.5 |
| Current expenditure | 13.1 | 16.9 | 19.9 | 14.5 | 15.2 |
| Capital expenditure and net lending | -2.2 | 14.0 | 16.3 | 10.0 | -11.0 |
| Money and credit (end-period) | | | | | |
| Domestic credit | 15.1 | 16.9 | 19.8 | 16.0 | 12.0 |
| Government | 18.0 | 14.3 | 21.4 | 19.7 | 12.9 |
| Commercial sector | 13.5 | 19.0 | 18.6 | 13.2 | 11.3 |
| Total liquidity (M3) | 16.0 | 17.8 | 19.4 | 15.1 | 18.5 |
| | | | (In percent of GDP) | | |
| Gross investment | 22.7 | 23.8 | 25.2 | 25.6 | 24.5 |
| Public sector | 10.4 | 10.0 | 10.7 | 9.7 | 9.4 |
| Private sector | 12.3 | 13.8 | 14.5 | 15.9 | 15.1 |
| Gross domestic savings | 20.3 | 20.6 | 22.2 | 22.6 | 23.1 |
| Public sector | 2.2 | 2.1 | 1.7 | 0.9 | 1.2 |
| Private sector | 18.1 | 18.5 | 20.5 | 21.7 | 20.9 |
| Central Government budget | | | | | |
| Revenue and foreign grants | 12.0 | 11.7 | 11.6 | 10.9 | 11.6 |
| Expenditure and net lending | 19.7 | 19.2 | 20.4 | 19.3 | 17.9 |
| Deficit 2/ | 7.7 | 7.5 | 9.0 | 8.7 | 6.5 |
| Public sector deficit | 10.3 | 10.0 | 11.7 | 12.2 | 10.0 |
| External sector | | | | | |
| External current account deficit | 2.4 | 3.2 | 3.0 | 2.8 | 1.4 |
| Debt service ratio | 29.4 | 29.8 | 27.7 | 27.9 | 27.7 |
| External debt | 21.4 | 21.0 | 23.5 | 22.7 | 27.2 |
| | | | (In billions of U.S. dollars) | | |
| External sector | | | | | |
| Exports | 12.6 | 14.3 | 16.9 | 18.5 | 18.1 |
| Imports | 19.6 | 23.3 | 24.4 | 25.8 | 20.8 |
| Current account balance | -6.2 | -8.8 | -8.1 | -8.2 | -3.5 |
| Overall balance of payments | 0.6 | -0.4 | -- | -2.5 | 1.8 |
| Gross official reserves | 6.9 | 5.4 | 4.6 | 2.8 | 6.3 |
| (In months of imports) | 4.2 | 2.8 | 2.3 | 1.3 | 3.6 |

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

1/ Data are for April-March fiscal years unless otherwise stated.
2/ Including the Oil Coordination Committee.
3/ Refers to the free market exchange rate.

## Preface

This paper complements the staff report for the 1992 Article IV consultation with India (EBS/92/175, 11/6/92) by providing a more detailed analysis of selected policy issues. The first chapter presents an overview of the role of the public sector in the Indian economy, with particular emphasis on the operations of the Central and State Governments, and an assessment of the performance of the public enterprise sector. It also discusses the implications for the financial system of the large resource needs of the public sector, and the modalities behind the substantial flows of resources from the Central Government to the States. The second chapter examines economic relations between India and the former Soviet Union, and assesses the implications of its dissolution for India's foreign trade and external debt. The third chapter analyzes the recent performance of the export sector in India, its current level of competitiveness, and the implications of further trade liberalization, drawing partly on the experience of other countries which have recently undertaken comprehensive trade reform.

## I. Role of the Public Sector in the Indian Economy

This chapter assesses the role of the public sector in the Indian economy in recent years, focusing primarily on its economic and financial performance, and its contribution to overall macroeconomic imbalances. After a brief overview of the size, structure, and economic importance of the public sector, the chapter analyzes the recent fiscal performance of the Central Government and the States, and also presents a more detailed assessment of the performance of central nonfinancial public enterprises. It concludes by examining the implications for the domestic financial system of the large resource needs of the public sector, and by outlining (in Appendix I) the modalities behind the substantial flows of resources from the Central Government to the States.

### 1. Overview of public sector operations

The public sector in India comprises the Central Government, 25 State Governments, 7 Union Territories, and local authorities, as well as more than 1,000 central and state nonfinancial public enterprises, and about 300 public financial institutions (Chart 1). 1/ Consistent with India's development strategy since independence, the public sector has played a significant, and generally increasing, role in the economy. 2/ Its share of value added in the economy has risen rapidly over the past three decades, from 10 percent of GDP in 1960/61 to 25 percent by the mid-1980s (Chart 2). Because of this rapid growth, output from the public sector contributed about one third of the 4 percent annual average GDP growth rate recorded since 1960/61. While disaggregated data are not available for earlier periods, the data for the 1980s indicate that public enterprises generate about two thirds of the value added in the public sector, with the non-departmental enterprises alone accounting for one half of public sector GDP.

Although the public sector does not dominate in any broad sector of the economy, it accounts for all or almost all of the output in some key industries. Its share of value added is currently about 10 percent in the primary sector, 21 percent in industry, and 39 percent in services. In addition to public administration and defense, the subsectors where the public sector plays a dominant role include mining (with a share of 100 percent of output), railways (100 percent), power generation (92 percent), and

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1/ For a detailed list of financial and nonfinancial central public enterprises, see International Monetary Fund, Government Finance Statistics Yearbook, Vol. XV, pp. 673-674, Washington, D.C., 1991; for information on 254 major public enterprises at both the central and state levels, see Public Sector in the Indian Economy, Economic Intelligence Service, Centre for Monitoring Indian Economy, May 1991.

2/ Detailed statistics on the various economic and financial indicators of public sector operations are available only until 1988/89. Nevertheless, the major conclusions relating to its relative importance and role are likely to have remained applicable in the early 1990s.

CHART 1

INDIA

# STRUCTURE OF PUBLIC SECTOR

## PUBLIC ADMINISTRATION

Administrative departments in:

- Central Government
- State Governments
- Union Territories
- Local Governments

## PUBLIC ENTERPRISES

### Financial

(about 300 public financial institutions)

### Nonfinancial

#### Central Government

(about 240 enterprises)

Departmental including

- railways
- postal and telecommunications services

Nondepartmental

- Companies engaged in almost every type of economic activity

#### State Governments

(about 800 enterprises)

Departmental including

- irrigation
- dairies
- electricity
- transportation

Nondepartmental

- Companies engaged in almost every type of economic activity

#### Local Governments

including

- municipal transportation
- electricity schemes
- milk programs

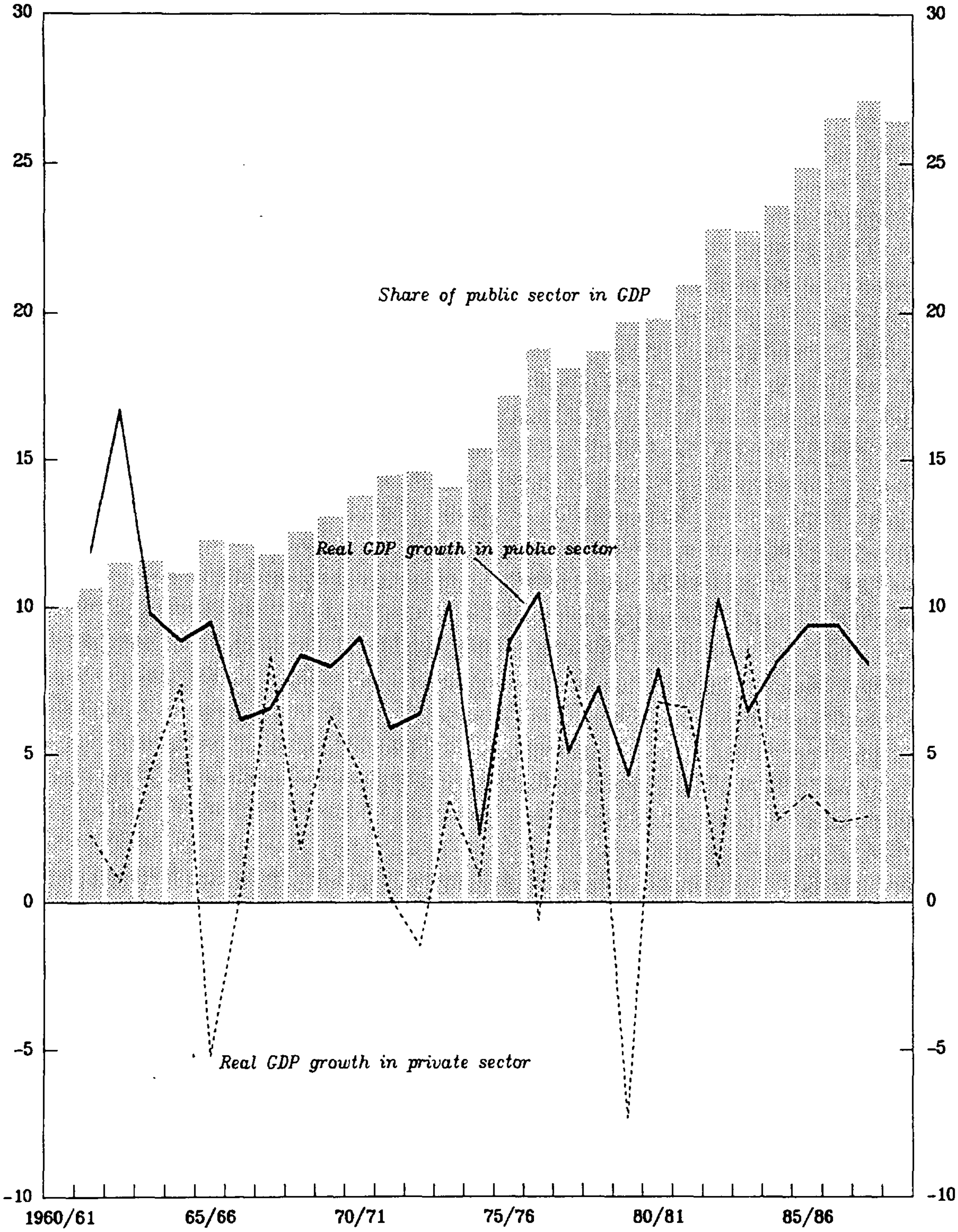
Source: Public Sector in the Indian Economy, Economic Intelligence Service, Center for Monitoring Indian Economy, May 1991.

CHART 2

INDIA

# INDICATORS OF PUBLIC SECTOR OUTPUT, 1960/61-1988/89

(In percent)




Source: Central Statistical Organization, National Accounts, various issues.

banking and insurance (88 percent). In contrast, the public sector's contribution to output is relatively small in agriculture (3 percent), trade, hotels, and restaurants (6 percent), manufacturing (14 percent), and construction (18 percent).

The public sector provides more than two thirds of employment in the organized sector, but its share in total employment is only about 7 percent, as the vast majority of India's workers operate in the unorganized private sector. 1/ Given its dominance in the organized sector, the public sector is estimated to account for about 40 percent of the economy's wage bill. Despite a steady decline in the rate of increase of public sector employment, especially since the mid-1970s, the growth rate has generally exceeded the rate of increase of the population (Chart 3). State governments account for nearly 40 percent of public sector employment, and public enterprises (Central and State together) for about one third.

In the area of foreign trade, the public sector plays a dominant role in imports, but its share in exports is less than one fifth of the total. Its participation in external trade is mainly through specialized agencies that either have a monopoly on the export or import of certain goods (canalized items) or compete with private sector firms (noncanalized items). The main import items that are canalized include crude oil and petroleum products, fertilizers, foodgrains, edible oils, and certain metals. The share of the public sector in total imports increased rapidly from about one quarter in the early 1950s to a peak of over three quarters in the mid-1970s. Thereafter, the share has fallen steadily to about one half currently, reflecting both the impact of the Green Revolution (which made India practically self-sufficient in foodgrains) and the discovery of the Bombay High oil field (which significantly reduced the economy's dependency on imported oil). Regarding public sector exports, almost half consists of commodities produced by the private sector that are compulsorily canalized through public sector marketing agencies.

Since the late 1950s, the public sector has accounted for almost half of total capital formation in the economy, whereas public savings have typically been less than one fifth of the total (Chart 4). As a result, the public sector savings-investment gap has increased gradually, particularly in the 1980s, reaching almost 10 percent of GDP by the end of the decade. This latter development reflected the worsening fiscal performance of the Central and State Governments. However, since 1991, a significant reversal of this trend has been under way. In contrast, the savings of public enterprises (the nondepartmental ones in particular) have continued to increase. Public enterprises also account for the bulk of public invest-

---

1/ In the employment statistics, the organized sector is defined as comprising the whole public sector as well as private nonagricultural establishments employing more than 10 workers. Reporting is compulsory for establishments employing 25 or more workers. Reporting for firms with 10-24 workers is voluntary, and the extent of the coverage is not known.

ment, with only one fifth of the total originating from the administrative departments of the Central, State, and local Governments.

A major shift in the role and performance of the public sector was initiated in 1991/92 with the implementation of the present stabilization program. The new strategy focused on a significant consolidation of the overall public sector deficit, based on a sharp improvement in the financial operations of the Central Government, and a more market-based environment for public enterprise activities.

## 2. Recent trends in Central Government operations

### a. Overall developments

The largest contributor to the deterioration in the overall public sector deficit since the mid-1970s has been the Central Government, with its overall deficit rising from 3 1/4 percent of GDP in 1974/75 to a peak of 9 percent in 1989/90 (Chart 5). While total revenue rose by about 1 1/2 percentage points of GDP during this period, total expenditure and net lending increased by 7 1/2 percentage points (with almost half of the total growth taking place during the 1983/84-1985/86 period alone). Since 1990/91, however, the operations of the Central Government have registered an impressive turnaround, with a reduction in the overall deficit to 5 percent of GDP targeted in the 1992/93 budget; this recent consolidation reflects primarily a sizable cutback in expenditure, although revenue mobilization has also increased.

On the expenditure side, capital outlays and net lending remained virtually constant throughout the 1980s, but have declined significantly in the past three years. Within current expenditure, interest payments have risen rapidly since the early 1980s, while noninterest current outlays grew steadily until the mid-1980s when government policies led to a gradual reduction in these expenditures. Reflecting these developments, the primary deficit 1/ increased gradually during the first half of the 1980s to exceed 5 percent of GDP by 1985/86; a modest reduction in the second half of the decade was followed by a more rapid decline in the past two years as stabilization measures were introduced, with the primary deficit falling to 2 percent of GDP in 1991/92.

The main fiscal issues facing the Central Government since the beginning of the 1980s include the relatively low buoyancy of the most important tax categories, the growth in noninterest current expenditure, and the implications of the growing stock of domestic public debt for interest obligations. The remainder of this section addresses some of the main elements in these areas that contributed to the deterioration in the overall performance of central government operations until 1990/91, when the present stabilization program began.

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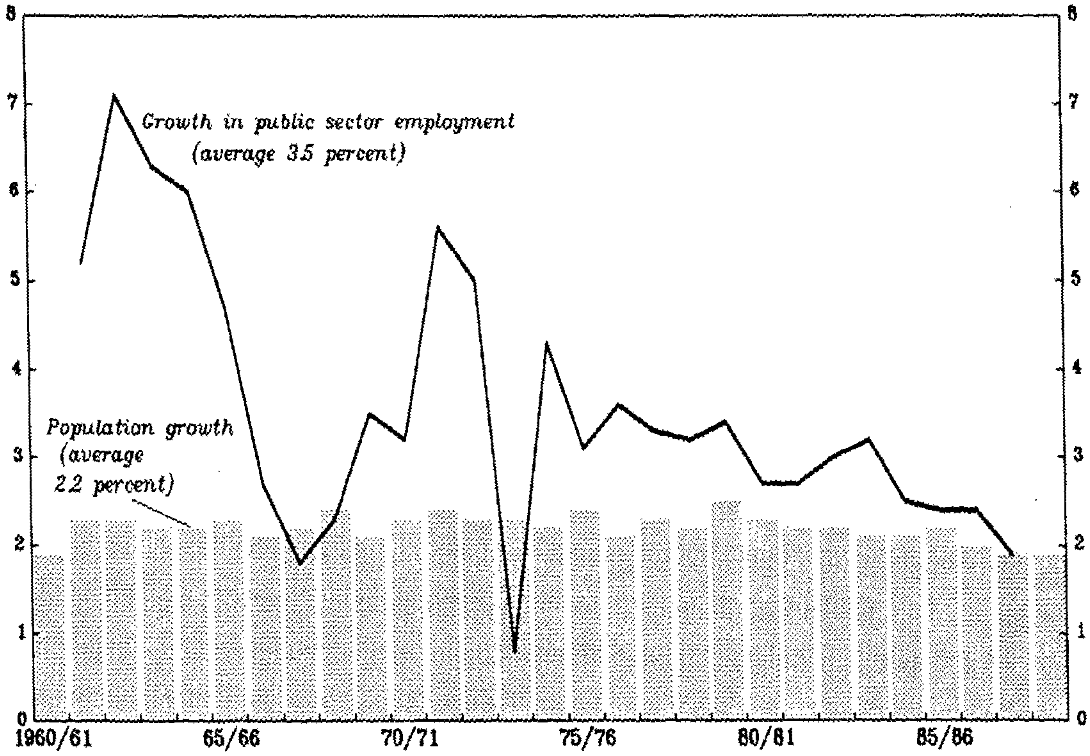
1/ Defined as the overall deficit less interest payments.

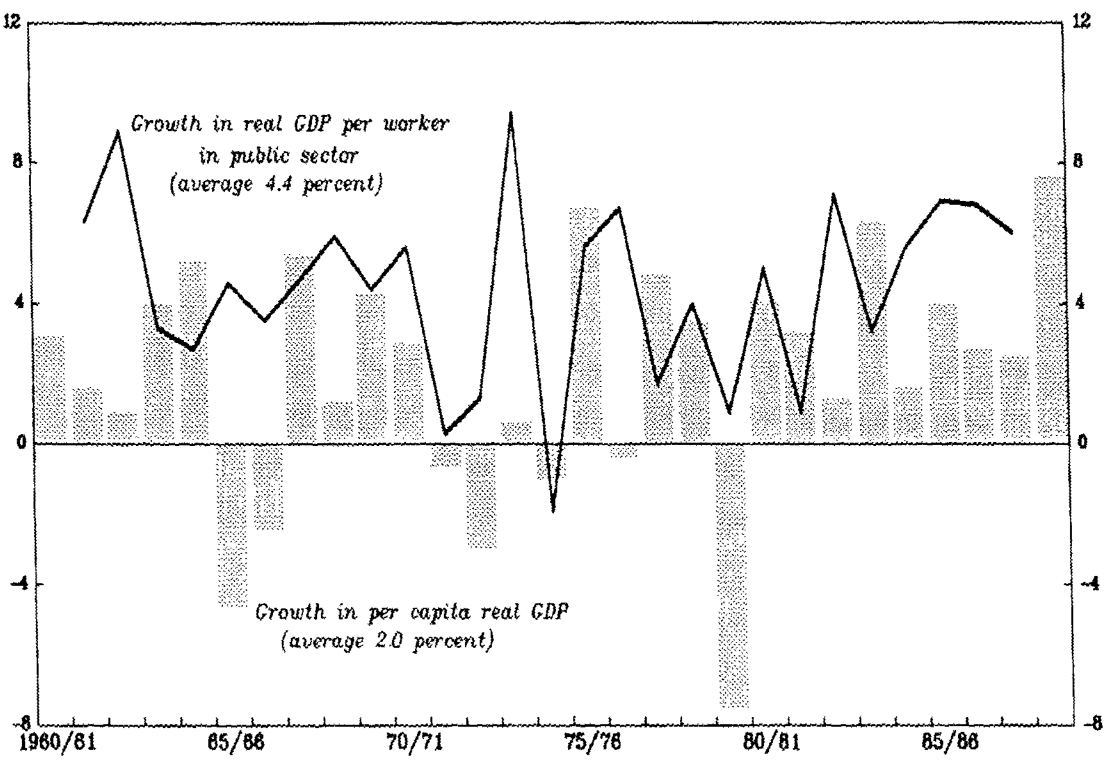
CHART 3

INDIA

EMPLOYMENT AND OUTPUT IN PUBLIC SECTOR, 1960/61-1988/89

(In percent) 1/



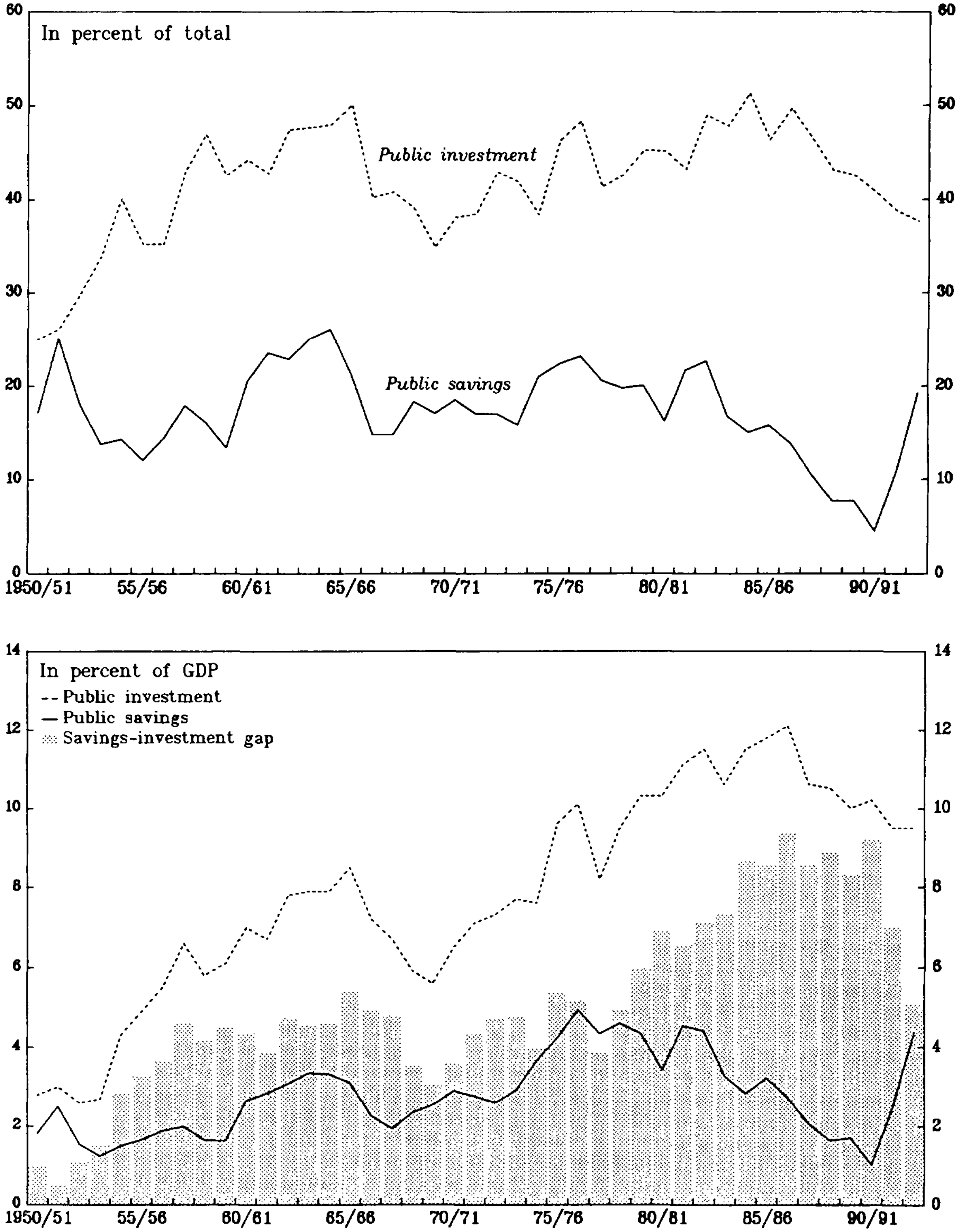

Sources: Central Statistical Organization, National Accounts, various issues; Government of India, Economic Survey, various issues.

1/ Average refers to annual average per annum.

CHART 4

INDIA

PUBLIC SAVINGS AND INVESTMENT, 1950/51-1992/93 1/




Sources: Central Statistical Organization, National Accounts, various issues; and staff estimates.

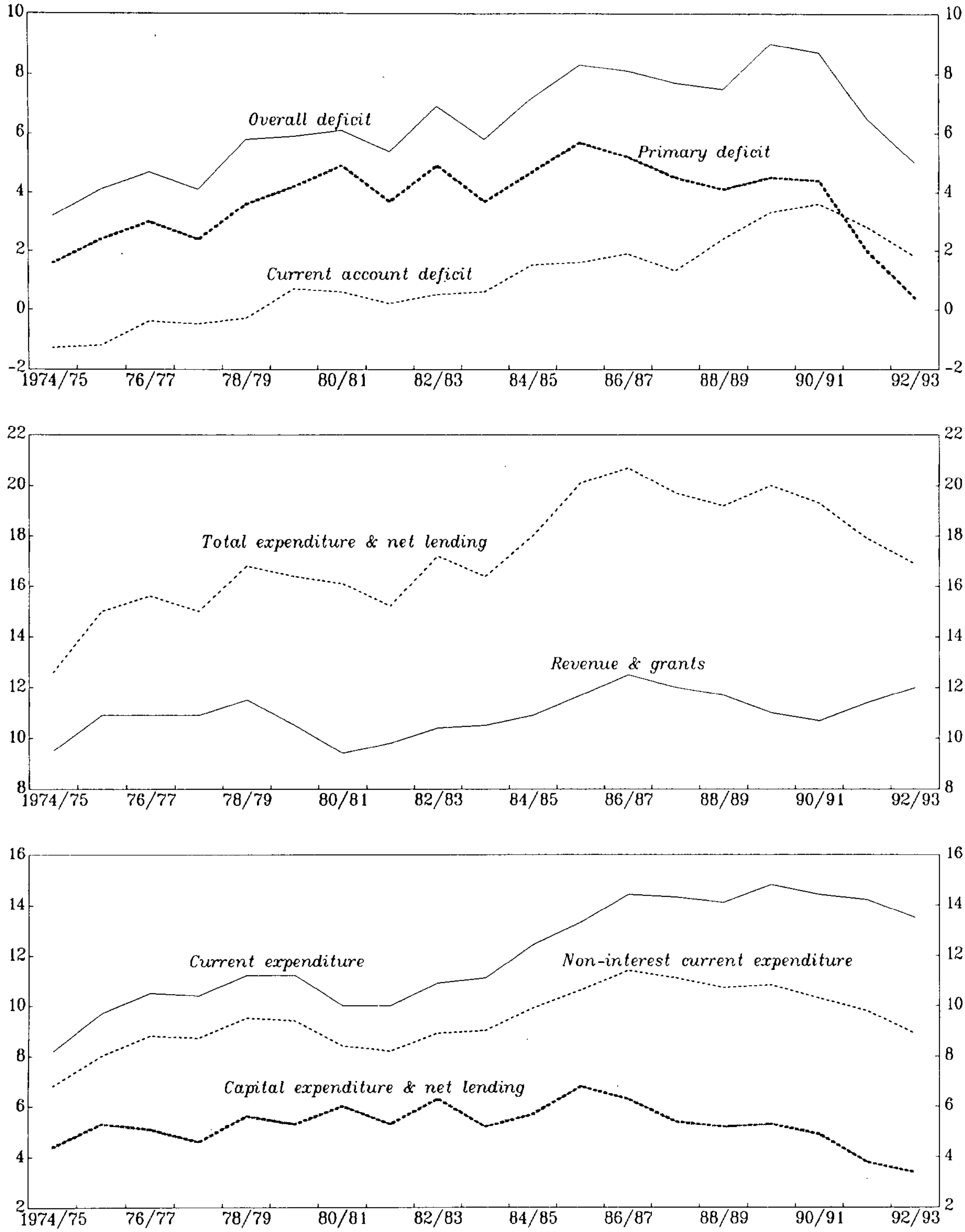
1/ Data for 1992/93 refer to the budget.

CHART 5

INDIA

## TRENDS IN CENTRAL GOVERNMENT OPERATIONS, 1974/75-1992/93 1/

(In percent of GDP)




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

1/ Data for 1992/93 refer to the budget.

b. Trends in revenue

Owing to its federal structure of government, simple international comparisons would erroneously suggest a relatively low share of revenue to GDP for the Central Government in India--averaging about 11 percent during the 1980s (Chart 6). However, if the receipts mobilized by the States are included, the ratio of revenue to GDP reaches 19 percent, a level comparable with other countries at a similar stage of development.

Total revenue accruing to the Central Government increased gradually during the 1980s to reach an average of about 11 1/2 percent of GDP in the latter part of the decade, implying a rise of 2 1/2 percentage points since 1980/81 (Chart 7). Most of this increase originated from the growing share of customs duties, which rose by 1 1/2 percentage points of GDP over this period, despite the proliferation of tariff concessions and exemptions. The increase, particularly in the second half of the decade, reflected both the sizable growth of imports and the depreciation of the rupee. Excluding import duties, which had an income elasticity of about 1.4, tax revenue recorded a buoyancy only marginally greater than unity during this period. Moreover, this buoyancy estimate includes the effects of the discretionary measures introduced by the Government with each budget--which related mainly to excise and customs duties--and therefore significantly overestimates the underlying elasticity of the domestic tax system.

Two main factors are responsible for the relatively low elasticity of direct taxes. First, sizable exemptions and allowances have reduced the tax base considerably and lowered the effective tax rate. Regarding personal income taxes, the exemptions have been related to savings channeled into various designated instruments, with the main objective being to raise resources to finance the Center's deficit. As far as corporate taxes for domestic companies are concerned, the exemptions have included investment allowances, deduction of export income and intercorporate dividends from the taxable base, and generous allowances for investment in marginal areas. 1/ Secondly, tax evasion has been a major problem, resulting in a direct tax base dominated by large- and medium-sized enterprises (many of which are government-owned) and their employees. Consequently, the number of personal income tax and corporate taxpayers currently amounts to only seven million in a country with a population of over 850 million.

The Central Government shares revenue from excise duties and personal income tax in proportions periodically recommended by a government-appointed

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1/ The tax base has also been eroded by the constitutional provision that assigns the power to tax agricultural income solely to the States. However, as the share of agriculture in GDP declined in the 1980s, the income elasticity of direct taxes was not adversely affected by this provision.

Finance Commission. 1/ As a result, with the increased reliance on taxes on international trade--which are not shared with the States--the Central Government's tax revenue net of the States' share rose gradually during the 1980s, from less than 7 percent of GDP at the beginning of the decade to an average of more than 8 percent in the past three years.

The authorities have periodically introduced various tax reform measures aimed at encouraging compliance and streamlining the tax system. The 1992/93 budget initiated a far-reaching program of reform in the area of personal income taxation: a sizable increase in the exemption limit; a reduction in the number of tax rates to three slabs; the abolition of certain deductions which benefitted higher income taxpayers, a more equitable taxation of incomes of minors; the implementation of a system of indexation for computation of long-term capital gains; and the introduction of a presumptive tax for shopkeepers and retail traders with an annual turnover below a certain amount. The Government is currently examining the recommendations of the Chelliah Committee relating to a similar simplification of the corporate tax system.

Although excise taxes have remained the most important tax source for several decades, their share in GDP remained virtually constant throughout the 1980s (at 4 3/4 percent before sharing with the States). The early stages of a value added tax (VAT) were initiated in 1986/87 with the introduction of a modified value added tax (MODVAT) scheme. The new scheme made it possible for producers to obtain tax credits for the excise taxes paid to the Central Government on inputs (except capital goods) used in production. The coverage of MODVAT has been gradually extended in subsequent years, but the scheme still excludes many sectors, notably services. The reform helped to substantially reduce the cascading effects of excise taxes, and the attendant distortions, but did not lead to an increase in revenue from excise taxes, owing largely to the narrowness of the tax base (excise duties are imposed on only one fifth of traded output by value).

The contribution of nontax receipts to total revenue increased rapidly in the first half of the 1980s before stabilizing at 3-3 1/2 percent of GDP in the past five years. More than 50 percent of nontax revenue reflects large interest payments by the States and public enterprises on loans made by the Central Government. An important element of nontax revenue in the first half of the 1980s was the operating surplus of the Oil Coordination Committee (OCC), which averaged about 1/2 percent of GDP. This contribution

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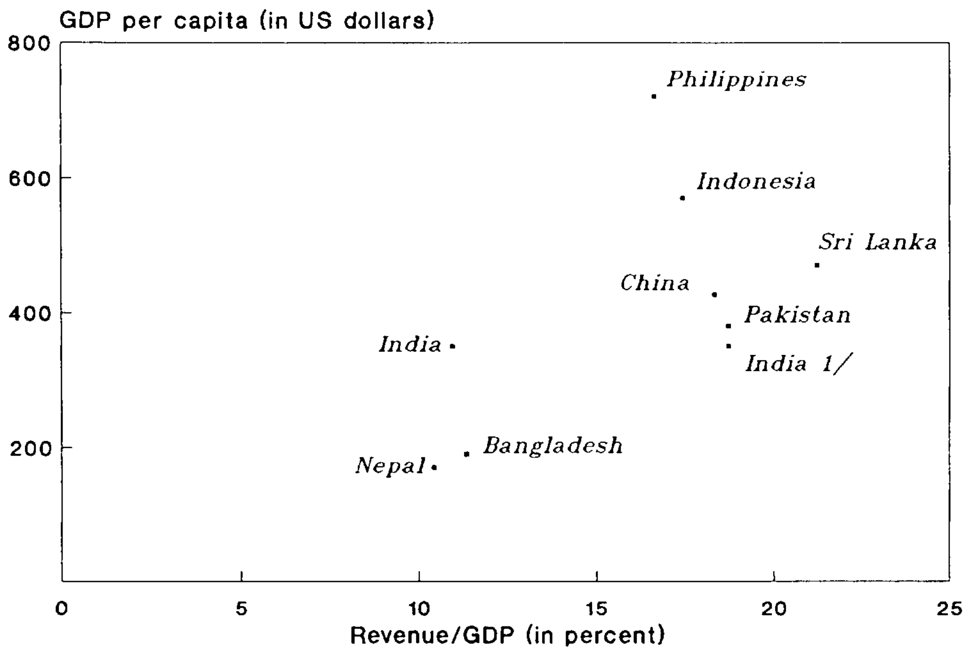
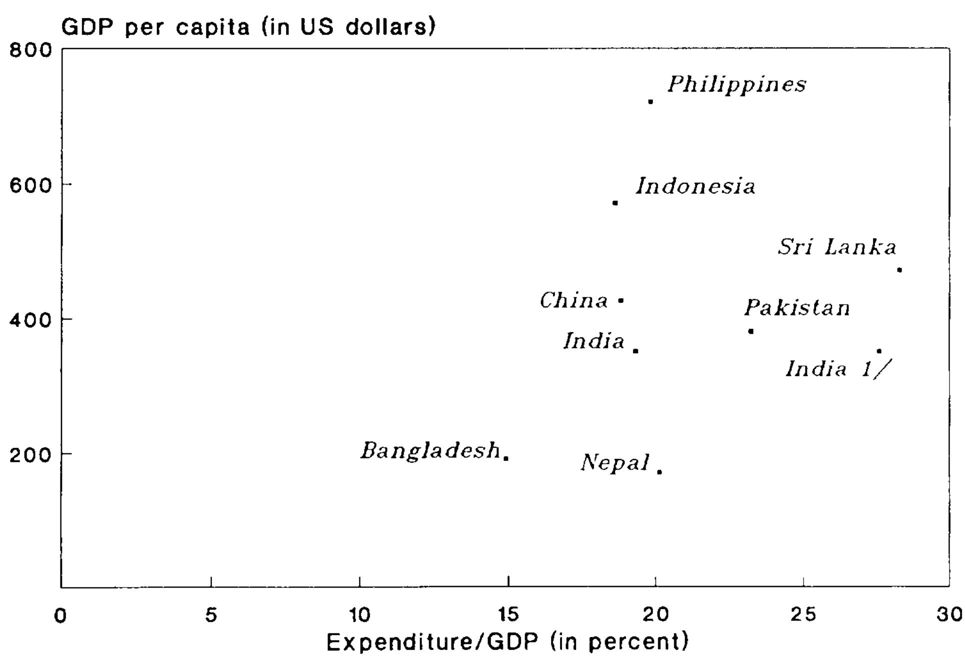
1/ Appendix I contains more details on the operations of the Finance Commissions, which make recommendations on revenue sharing every five years. The revenue sharing arrangements have been modified substantially in the past 40 years. In the mid-1950s, States received only 55 percent of personal income tax receipts and 40 percent of excise duties on three major products; the current arrangement--which expires in 1995--allocates 85 percent of income tax receipts and 45 percent of excise duties to the States.

CHART 6

INDIA

# CENTRAL GOVERNMENT REVENUE AND EXPENDITURE AND PER CAPITA INCOME, 1990




Sources: Economic Survey, Government of India; IMF, International Financial Statistics; IMF, Government Finance Statistics; and other Fund documents.

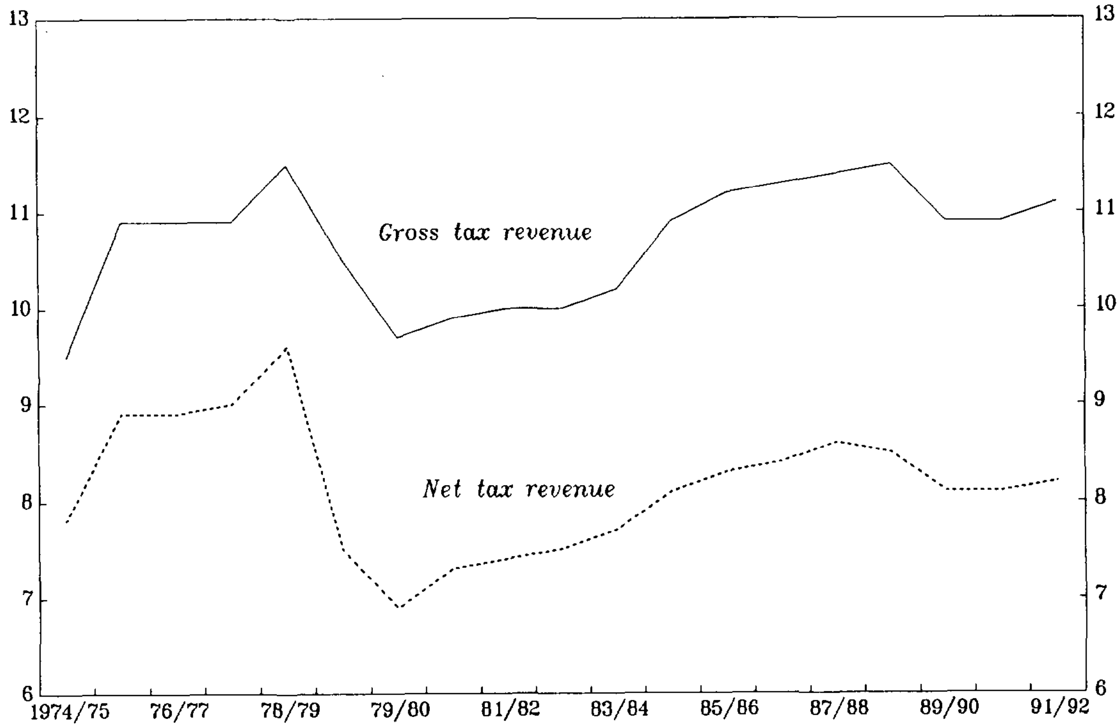
1/ Including States.

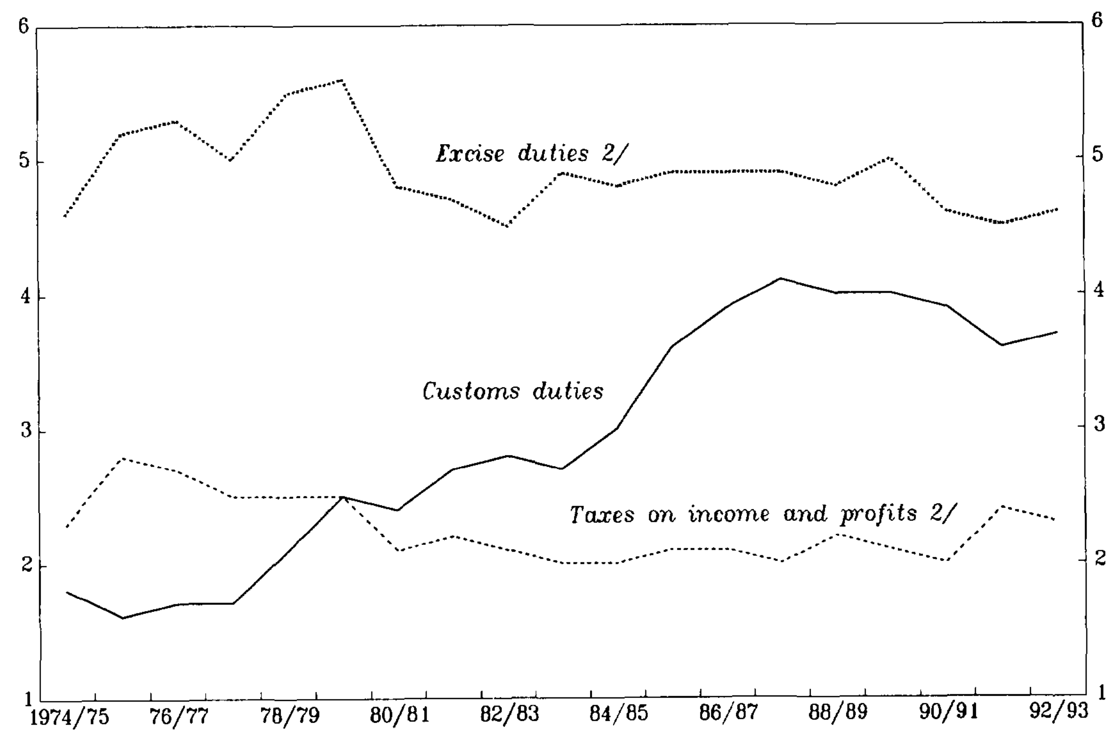
CHART 7

INDIA

CENTRAL GOVERNMENT TAX REVENUE DEVELOPMENTS, 1974/75-1992/93 1/

(In percent of GDP)




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

1/ Data for 1992/93 refer to the budget.

2/ Before revenue sharing.

was inversely related to movements in international oil prices; significant delays in effecting corresponding increases in domestic retail prices initially reduced the surplus of the OCC, and, subsequently, led to the emergence of sizable deficits, particularly in the past four years. 1/ The recent large increase in petroleum product prices (by an average of 18 percent) is expected to ensure once more that the OCC makes a small positive contribution to the overall financial position of the Central Government.

c. Developments in expenditure

Total expenditure by the Central Government as a ratio of GDP is comparable to the levels recorded in many neighboring countries; however, if outlays by the States are included, government expenditure in India has been among the highest in the region. From a public policy point of view, expenditure by the Central Government is separated between Plan and non-Plan expenditure, with each category subdivided between current and capital expenditure. A major constraint on expenditure policy is the significant proportion of outlays that have been formula-driven: plan expenditure (both current and capital) is determined by the Planning Commission on the basis of the project-related needs of the Central Government, the States (for both the States' own projects as well as centrally sponsored schemes), and the central public enterprises; the sizable interest obligations reflect the growing burden of public debt; subsidies on fertilizers and food vary according to delays in adjusting prices and volumes marketed; the Central Government's wage bill is heavily influenced by the virtually automatic granting of cost-of-living increases ("dearness allowances"); and the on-lending to the States of small savings collected by the Center is formula-based.

The most important factor in the growth of current expenditure in recent years has been interest payments, which rose from less than 2 percent of GDP at the beginning of the 1980s to about 4 1/2 percent in the past two years (see Section d. below). However, noninterest current spending also rose rapidly throughout most of the 1980s, reflecting continued growth in outlays on transfers and subsidies; the latter reached a peak of 2 percent of GDP toward the end of the 1980s (Chart 8). Correspondingly, the significant decline in noninterest outlays since 1990/91 has been based on cutbacks in expenditure on subsidies, defense, and goods and services. In particular, the elimination of the export subsidy scheme and successive increases in fertilizer prices--together with the decontrol of all imported fertilizers in September 1992--are expected to reduce outlays on subsidies to 1 1/4 percent of GDP in 1992/93. The central government wage bill

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1/ Fiscal receipts from the petroleum sector--which include customs duties, excise taxes, cesses, the OCC balance, dividends, royalties, and corporate tax paid by petroleum companies--ranged from 1 1/2 to 2 percent of GDP in recent years, or about 15 percent of total net revenue accruing to the Central Government.

contributed less than 1/2 percentage point of GDP to the growth in current expenditure in the 1980s, and has now declined to levels (1.9 percent of GDP) comparable with those which prevailed in the early 1980s. 1/ Given that the central government staff has increased by only 7 percent since 1980/81, most of the increase in the wage bill during the 1980s originated from higher average wages (which rose by 14 1/2 percent per annum, significantly exceeding the rate of inflation). While higher defense expenditures contributed about 1/2 percent of GDP to the widening deficit during the first half of the 1980s, recent cutbacks in this area have now reduced the share of defense outlays to about 2 1/2 percent of GDP, the lowest level recorded in the past 25 years. 2/

Capital expenditure and net lending exhibited considerable fluctuations throughout the 1980s, averaging 5-6 percent of GDP per annum. Following the fairly rapid rise during the first half of the 1980s--reflecting an increase in public investment under the Sixth Five-Year Plan--capital spending has borne the brunt of the Government's fiscal stabilization efforts in recent years. Part of the decline in capital expenditure--to 3 1/2 percent of GDP in the past two years--was achieved by encouraging public enterprises to finance a larger proportion of their investments from their own net internal resources and from greater recourse to market borrowing. At the same time, however, certain priority areas of capital spending, including infrastructure, were also squeezed.

d. Domestic public debt and interest obligations

The need to finance large deficits during the 1980s, mainly through domestic borrowing, led to a rapid increase in the overall outstanding debt of the Central Government, which rose from 44 percent of GDP in 1980/81 to nearly 60 percent by the end of the decade. However, the reliance on net foreign financing of the fiscal deficit has declined substantially in recent years, with central government external debt now accounting for only 10 percent of its total debt, compared with 19 percent at the beginning of the 1980s. 3/ Interest payments on public debt have also increased as a result of the consistently large share of market loans in total debt--these now account for more than 20 percent of the Central Government's total liabilities, and are significantly more costly than other forms of borrowing. About one half of the Center's total liabilities relate to borrowing

1/ Central Government wages in India are adjusted to reflect cost of living increases, according to a scale that provides full compensation for lower-paid employees, and only 65 percent compensation for the highest-paid civil servants.

2/ Defense expenditure in the budget includes military debt service. In 1992/93, for example, the debt service associated with military debt is expected to account for 20 percent of total defense outlays of 2 1/2 percent of GDP.

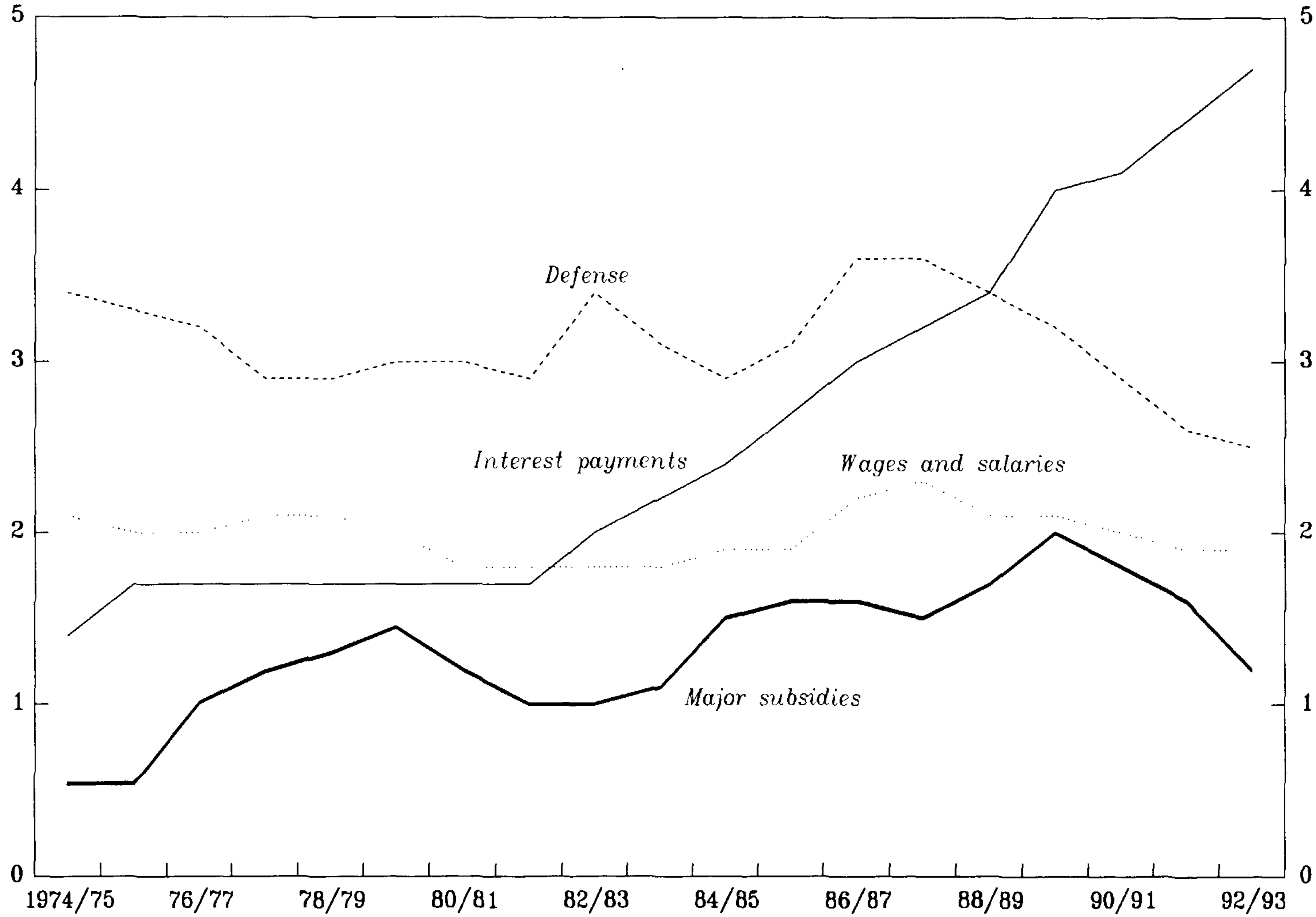
3/ Excluding debt owed to the former Soviet Union. For details on the latter, see Chapter II below.

CHART 8

*INDIA*

# MAJOR COMPONENTS OF EXPENDITURE, 1974/75-1992/93 1/

(In percent of GDP)




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

1/ Data for 1992/93 refer to budget.

under the small savings schemes, state and public provident funds, special deposits of nongovernment provident funds, and various minor schemes. The more than doubling in interest payments as a share of GDP in the past decade also reflects a significant rise in interest rates, as the Government followed a policy of gradually increasing rates on its borrowing to market levels. 1/

### 3. State finances and Center-State financial relations

Under India's federal structure of government, the 25 States and 7 Union Territories enjoy a considerable degree of autonomy, particularly in the area of expenditure. They play an important role in the country's social and economic development, with major responsibility for education, health, social welfare, agriculture, irrigation, roads, and internal law and order. In recent years, total revenue and grants accruing to the States--including transfers from the Center--have been approximately equal to the total revenue of the Central Government itself (11-12 percent of GDP). The relations between the States and the Central Government are complex, and the flows of resources are large, with potentially significant macroeconomic implications. Accordingly, the efforts of the Central Government in pursuing fiscal adjustment to address domestic and external imbalances need to be placed in the context of Center-State relations. The States' contribution to the overall deterioration of the public finances during the 1980s was significant, and any strategy aimed at further consolidation of the overall public sector has to address certain fundamental elements of the States' finances.

The combined budgetary deficit of the States doubled between the mid-1970s and 1990/91 to reach 4.2 percent of GDP; however, a moderate improvement was registered in 1991/92, in line with the overall effort at public sector consolidation, with the States' deficit declining to 3.7 percent of GDP (Chart 9). 2/ Reflecting these sizable deficits, the gross total liabilities of the States increased from 17 1/2 percent of GDP in 1980/81 to an estimated 21 percent at the end of 1991/92. 3/ Recent developments in State finances highlight three problem areas: a sharp increase in current expenditures; the weak performance of state enterprises;

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1/ Interest payments now account for one third of total current expenditure, and are equivalent to nearly 40 percent of central government revenue. The redemption yield on Government of India securities rose from an average of 7 percent in the first half of the 1980s to 11 percent during the past two years.

2/ In 1991/92, two thirds of the combined fiscal deficit of the States was accounted for by eight States (Uttar Pradesh, Maharashtra, Bihar, Rajasthan, Gujarat, West Bengal, Madhya Pradesh, and Tamil Nadu), while only one State (Arunachal Pradesh) registered a surplus.

3/ Excluding central government loans, the States' liabilities--which represent their net contribution to the overall public sector debt--increased from 5.1 percent of GDP in 1980/81 to 8.1 percent in 1991/92.

and the increased reliance of States on transfers from the Central Government. 1/

a. Current expenditure trends

While the States' capital spending has remained virtually constant as a share of GDP over the last 15 years, current expenditure has risen from about 8 percent of GDP in the mid-1970s to over 13 percent in 1990/91. The most important reason for this development was the rapid increase in the wage bill--by about 8 percent per annum in real terms during the 1980s--reflecting almost equally the impact of higher employment and increases in real wage rates. 2/ The wage bill for 1991/92 is estimated to have reached 4 1/4 percent of GDP. 3/ Both interest payments and subsidies also rose sharply in real terms during this period, with interest payments amounting to 1.8 percent of GDP by 1991/92, and subsidies reaching 1.3 percent.

In the absence of a social security system or unemployment insurance scheme, and given the slow growth of formal sector employment, the State governments have increased their own recruitment in order to try to ease the pressure of unemployment. To a large extent, however, this strategy has been self-defeating since the increase in direct employment by the States was at the expense of expenditure on infrastructure and maintenance of capital assets; as a result, infrastructural bottlenecks have hampered employment creation in nongovernmental activities. The Center is partly responsible for the sizable increase in employment since a proliferation of centrally sponsored, but state-implemented, schemes has led to the creation of a large number of associated posts by the various state agencies involved. The level of remuneration per employee has also risen as a result of numerous revisions of pay scales, increased fringe benefits, and a greater degree of indexation of salaries to price increases. Many of these revisions in pay scales took place after similar adjustments for central government employees; for example, the recommendations of the Fourth Pay Commission in 1986 for central government employees led to an increase of 18 percent in the wage bill of the States. More recently, a Committee on Austerity was set up, comprising high-level representatives from several States, and charged with making recommendations for reducing administrative

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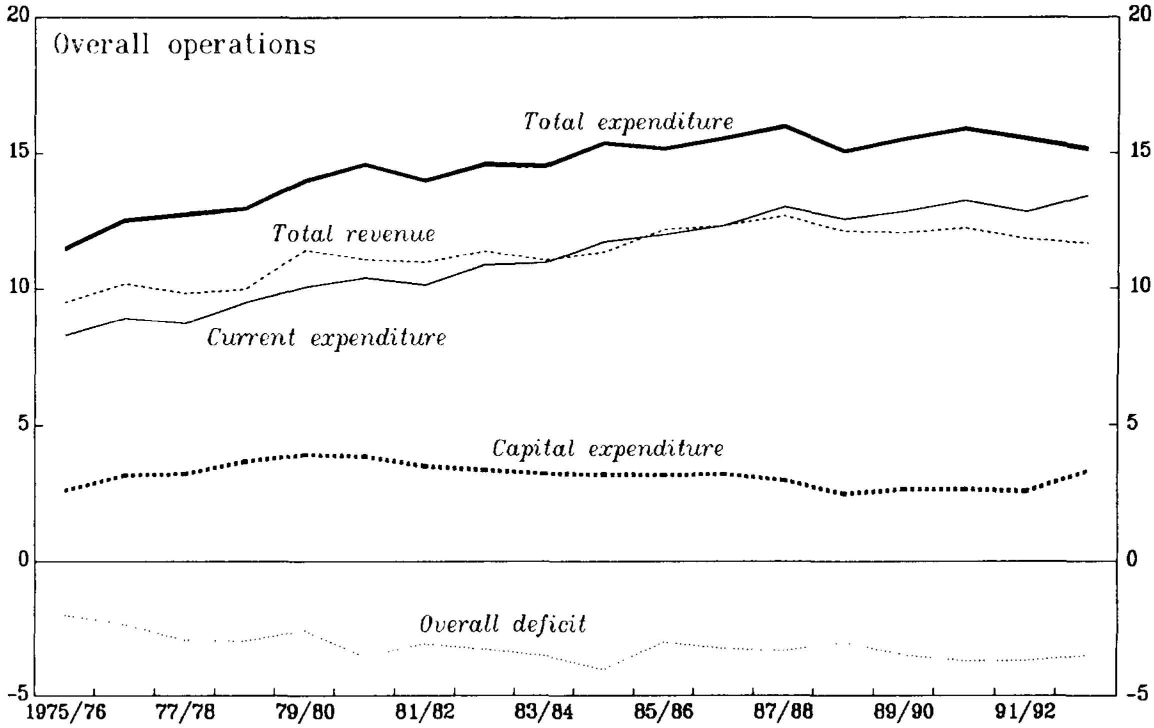
1/ Transfers are determined by the Finance and Planning Commissions with a view to closing the (widening) gap between the States' own revenues and their expenditure. The Finance Commission determines the tax sharing arrangements between the central and the state governments; and the Planning Commission determines the level of Plan assistance to the States from the Center. Further details are provided in Appendix I.

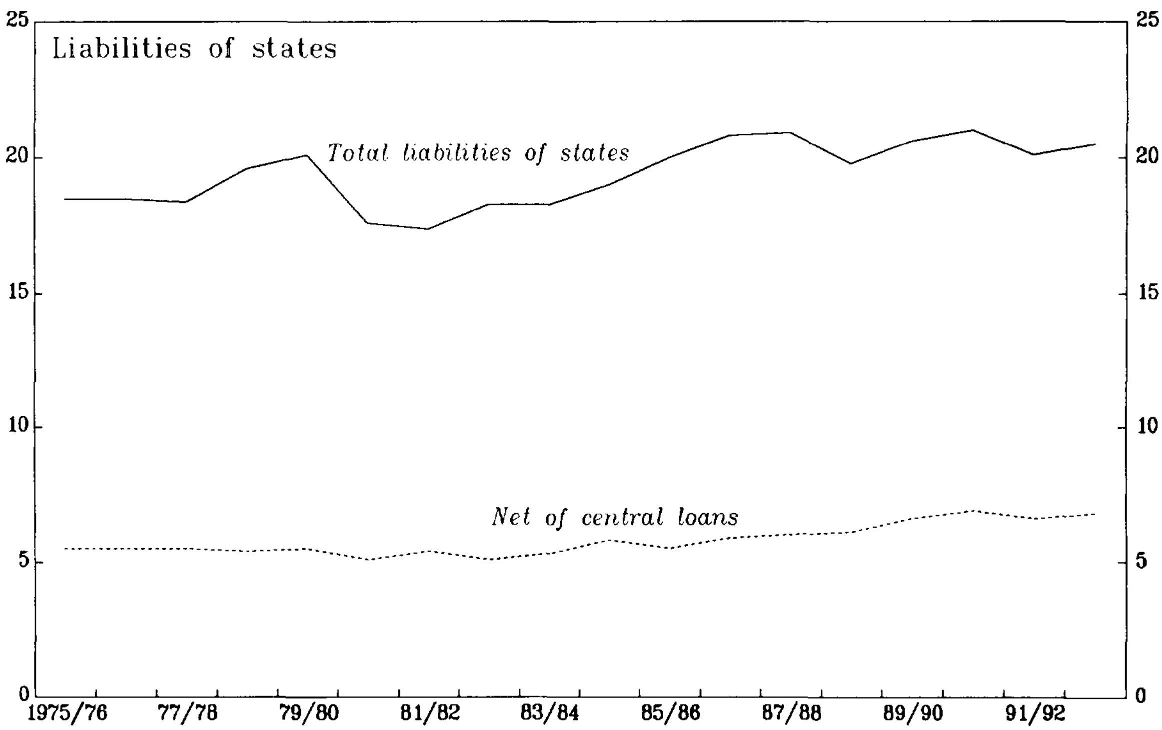
2/ This estimate is obtained from the Second Report of the Ninth Finance Commission presented to Parliament in 1989. See also "Proposals for State-Level Budgetary Reforms" by Govinda Rao in Economic and Political Weekly, February 1, 1992.

3/ Total state government employees are currently estimated at more than 6.8 million, compared with 4.9 million in 1981/82.

CHART 9

INDIA
FINANCIAL OPERATIONS AND LIABILITIES
OF STATES, 1975/76-1992/93 1/
(In percent of GDP)




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

1/ Data for 1992/93 refer to the budget.

expenditure in the States as well as the Central Government. In addition, the Ray Committee is examining ways to rationalize wage increases of government workers, and align them more closely with wage developments in the private sector.

b. Performance of state public enterprises

The losses incurred by state enterprises have averaged over 1 percent of GDP per annum since 1986/87, with the State Electricity Boards (SEBs) registering the weakest performance (Table 1). 1/ The losses of SEBs, which currently amount to about 0.8 percent of GDP, reflect pricing below long-run marginal cost, a very poor collection effort (especially among agricultural users, who consume about 30 percent of electricity), and severe overstaffing. 2/ The under-pricing of electricity supplied to farmers represents the most severe drain on SEB finances. In March 1992, the Power Ministers of all 25 States agreed to increase the minimum charge for electricity for agricultural use from about 20 paisa/kwh to 50 paisa/kwh. However, the latter tariff still represents less than half of the average financial cost of supplying power (estimated at about 1.1 rupee/kwh). So far only about half of the States have implemented the increase. 3/

c. Tax devolution and other transfers from the Center

A significant proportion of the States' resources is derived from transfers from the Center, as determined by the Planning Commission in the context of overall Plan outlays, and revenue from tax sharing arrangements with the Center on the basis of certain criteria specified by successive Finance Commissions. The automaticity element implicit in these flows of resources from the Center to the States has introduced a certain degree of inflexibility in the management of public finance policy. The States' share of total tax revenues raised by the overall public sector (Center plus

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1/ The State Irrigation Boards account for most of the remaining losses of the state enterprise sector.

2/ States both generate their own electricity (through state generating corporations) and also distribute electricity generated by central government concerns such as the National Thermal Power Corporation (NTPC). The losses referred to above represent only the direct financial losses from generating their own electricity; in addition, the SEBs incur substantial arrears to the NTPC, which in turn adversely affects the Central Government's finances. Earlier this year, after the SEB of India's largest State (Uttar Pradesh) accumulated arrears of Rs 10 billion vis-a-vis the NTPC, the Unchahar thermal plant in Uttar Pradesh was transferred to the NTPC as payment for these arrears. The NTPC has also threatened to cut off supplies to the Bihar SEB.

3/ Two important states--Punjab and Tamil Nadu--have not implemented the increase. In fact, Tamil Nadu, which imposes no charge on electricity supplied to agriculture, had to rescind the increase in the face of political opposition.

States) increased from about 43 percent in 1961/62 to 50 percent in 1990/91. In contrast, their own contribution to their total revenue has declined steadily, from 62 percent of States' receipts in 1974/75 to 54 percent in 1991/92 (Chart 10). Receipts from sales tax, which is the most important source of tax revenue for the States, have not been specially buoyant, remaining virtually constant at about 3 percent of GDP during the 1980s. Moreover, the cascading nature of the sales tax and the wide variation in rates and coverage between the States add considerably to distortions in the incentive structure. 1/

The incentive for the States to raise their own tax and nontax revenues has been reduced by their access to central government loans to help finance their deficits and to below-market rate borrowing from the banking system as a result of the operation of the statutory liquidity ratio (SLR). Net Central Government assistance to the States increased from 3 1/2 percent of GDP in 1974/75 to a peak of 6 3/4 percent in 1985/86, before declining slowly to 5 1/2 percent in 1991/92 (Chart 11). 2/ As noted above, these transfers are determined by the Finance and Planning Commissions, and are distributed among the States according to formulae established through negotiations.

However, in the past two years, as the Central Government's budget constraint has been hardened, and as the SLR has been brought down gradually, the States' recourse to the two above-mentioned sources of financing has declined. Further discipline on the States was introduced by the Central Government's decision at the beginning of the 1992/93 fiscal year to (i) transfer taxes due to the States in equal installments throughout the fiscal year, rather than the previous practice of releasing up to one half of the total at the very beginning of the year; and (ii) disburse its loans to the States every quarter instead of the previous frontloading. These measures have exerted considerable pressure on the States because they are allowed to borrow only within India, and even this borrowing is regulated by the Center: the Constitution forbids any State from borrowing without the Center's consent if there are any outstanding

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1/ Each State in India has the right to impose sales taxes. The number of rates in each State varies considerably, from 6 in Orissa to 17 in Gujarat and Bihar; moreover, there are numerous exemptions in each State. Distortions have risen with increases in the tax rates over time. In a federal structure like India's, there are two aspects of fiscal federalism that determine the sales tax rate a State chooses: the need to increase revenues for a given level of economic activity that takes place within its borders would compel a State to increase the rate, but the desire to have more business conducted within its borders as opposed to another State militates for lower tax rates. In the case of India, this latter aspect seems to have been relatively unimportant.

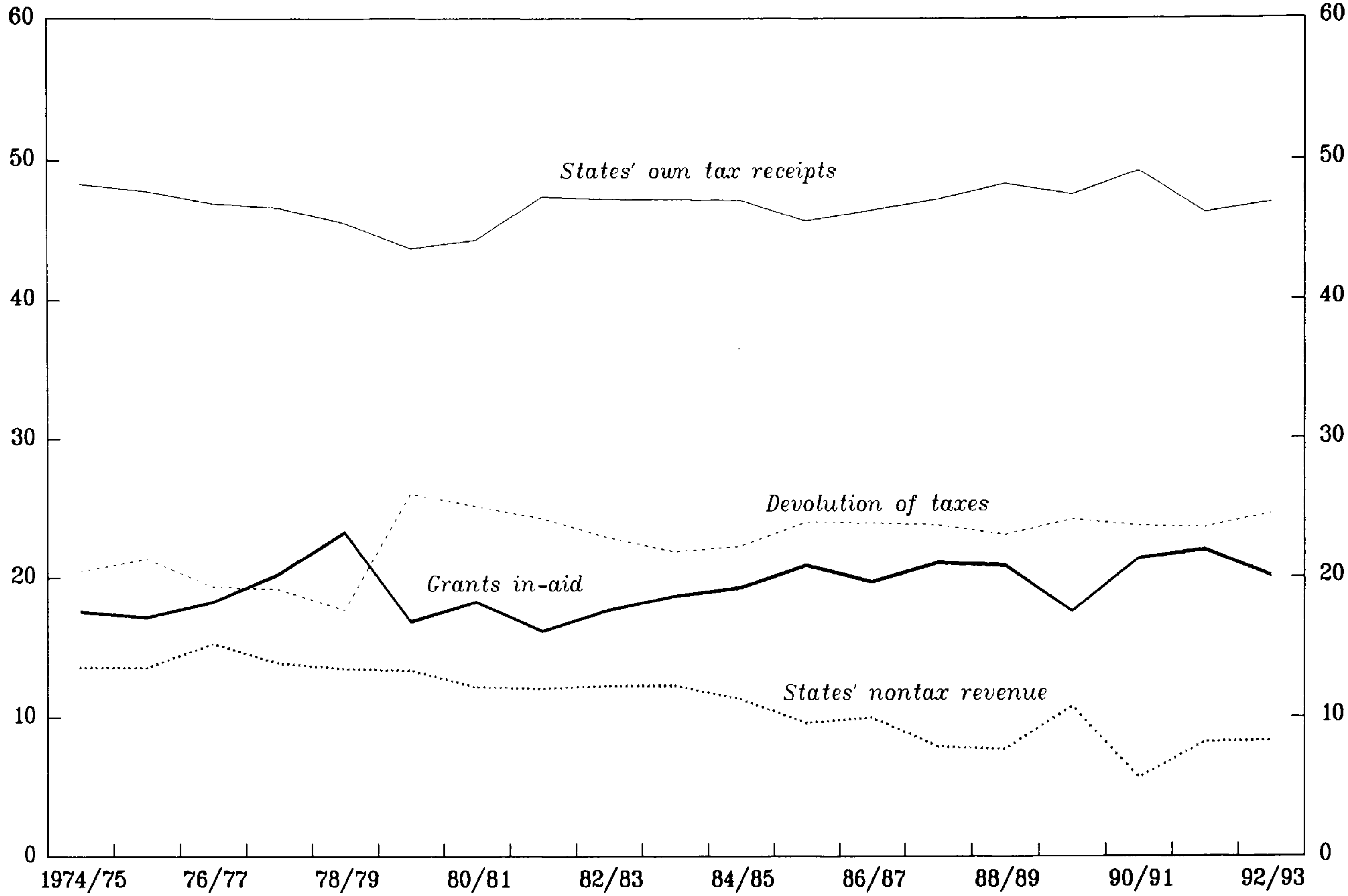
2/ The net financing through market loans (which are actually targeted concessionary flows via the SLR) amounted to 1/2 percent of GDP in 1991/92.

CHART 10

INDIA

# COMPOSITION OF STATE REVENUES, 1974/75-1992/93 1/

(In percent of total)




Sources: Second Report of Ninth Finance Commission, December 1989; authorities; and staff estimates.

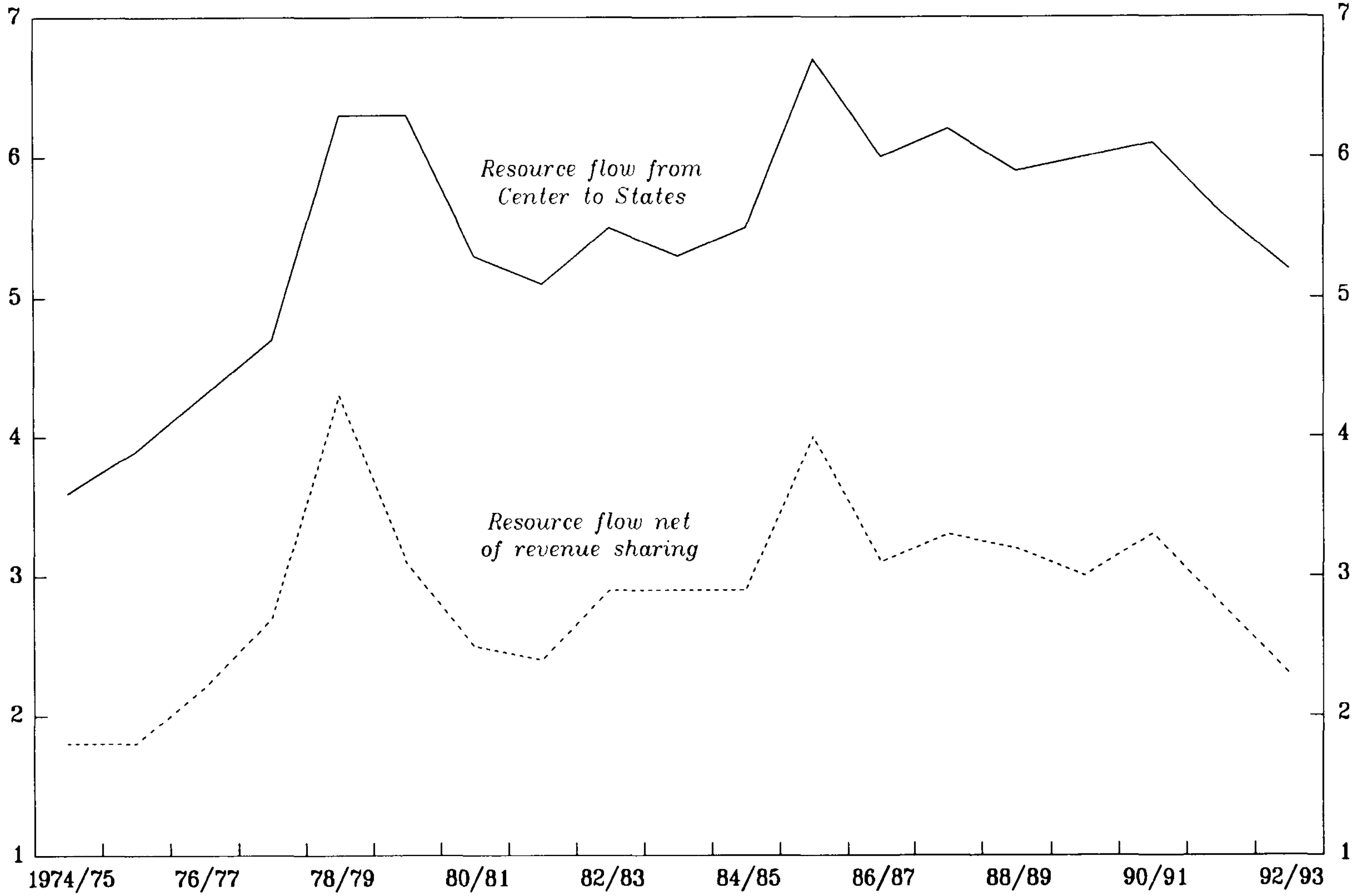
1/ Data for 1992/93 refer to the budget.

CHART 11

INDIA

FLOW OF RESOURCES FROM THE CENTRAL GOVERNMENT TO THE STATES, 1974/75-1992/93 1/

(In percent of GDP)




Source: Reserve Bank of India, Monthly Bulletin, various issues.

1/ Data for 1992/93 refer to the budget.

liabilities to the Center. 1/ As the Central Government's budget constraint has hardened, it has started to use this prerogative increasingly. In early June 1992, the Kerala Government was forced to close down the state treasury and stop all payments following an RBI order that it could not borrow any more during that quarter. In addition, in mid-June, seven States--West Bengal, Madhya Pradesh, Kerala, Orissa, Assam, Sikkim, and Arunachal Pradesh--were directed to eliminate overdrafts with the Central Government before the end of the quarter. 2/

4. Public enterprise sector

The role of public enterprises in the Indian economy has become increasingly dominant since independence; the sector now accounts for one third of gross domestic investment, contributes one fifth of nonagricultural output, and provides one quarter of employment in the organized sector. The sector consists of over 1,000 enterprises, with about 250 under the control of the Central Government; the remainder are owned by the States, the Union Territories, and the local authorities.

At the level of the Central Government, departmental public enterprises are government-owned commercial enterprises which are organized as regular government departments and are operated directly by the Central Government; the largest of these include the Railways and Posts and Telecommunications. Nondepartmental enterprises include those organized as corporate entities under the provisions of the Companies Act (such as the Steel Authority of India) or under the provisions of Special Acts of Parliament (e.g., Air India). The performance and operations of central nondepartmental enterprises are monitored by the Department of Public Enterprises (DPE) in the Ministry of Industry.

A detailed analysis of public enterprises at the State or local level is hampered by the paucity of data and lack of up-to-date information. Based on the reported size of assets in book-value terms, it is estimated that the average central public enterprise is about 25 times larger than the average state enterprise, with the latter's assets valued at about Rs 135 million per enterprise. Regarding employment levels, in 1990 central public enterprises accounted for about 3.5 million workers out of a total public sector labor force of 18 million, while state public enterprises employed 2.5 million workers.

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1/ Since all States have liabilities to the Center, they are constrained to accept the "shares" of market borrowing allotted to them by the Center plus their respective shares of small savings (which are based on a separate formula).

2/ More recently, the State of Maharashtra was refused permission by the Central Government to float bonds for irrigation projects.

a. Objectives and market classification 1/

Nondepartmental public enterprises were set up as corporations because they were designed to be commercially oriented, with a management team independent of the civil service. Nevertheless, their orientation has not necessarily been toward profit generation given the multiple (and sometimes conflicting) objectives assigned to them. These include: the production and generation of essential basic and intermediate goods, machinery, and services; the prevention of private monopolies in certain areas where private ownership is highly concentrated; the introduction of new technology; the pursuit of balanced regional development; the equitable distribution of industrial output; the generation of employment; and development of the human capital base of the country.

These objectives have been used by the Department of Public Enterprises as a basis for producing a classification scheme for public enterprises according to whether the enterprise operates in a market which is a monopoly or competitive, and whether social obligations are high or low. Table 2 provides a breakdown of the 233 enterprises classified according to these criteria for 1989/90. Although enterprises deemed to be in monopoly sectors or to have high social obligations represent only about one third of all enterprises by number, they constitute the largest share of value, whether measured in terms of employment, value added, net worth, or total gross assets. The ongoing program of partial divestment of enterprises' equity that was introduced in 1991/92 is intended to focus primarily on those units which have no strong rationale (e.g., prevention of monopoly or high social obligations) for remaining in the public sector.

b. Economic and financial performance

Standard comparisons of profitability and efficiency may not be entirely relevant for an assessment of the performance of the public enterprise sector, given that there are only a few areas in which the public and private sectors compete, and given the wide variety of noncommercial objectives assigned to various enterprises. Moreover, profitability itself may be an inappropriate measure of efficiency for monopolies and enterprises benefitting from excessive protection. A common criticism of Indian public sector units (PSUs) is that they have forced high-cost inputs onto downstream (including private) users and that they have absorbed large amounts

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1/ The assessment of the recent performance of public enterprises presented below is based on data provided in the Ministry of Industry's Public Enterprises Survey, the coverage of which is restricted to nondepartmental central government enterprises. These enterprises account for about one third of investment, output, and employment of the public enterprise sector as a whole. The latest available data are for 1990/91, when there were 236 such enterprises.

of capital for relatively low returns. Nevertheless a number of measurements of profitability have been used to assess public enterprise performance--including gross profits, net profits before tax, net profits after tax, and return on capital at domestic prices (ROKD).

For commercial enterprises, the most appropriate measurements--which would enable a valid comparison with private sector performance (despite the distortions engendered by quasi-monopolistic conditions)--are net profits after tax and ROKD (defined as profit before interest, taxes, and depreciation as a percent of total gross assets). The Department of Public Enterprises focuses on gross profits--equal to gross margin (the excess of income over expenditure) less depreciation--relative to capital employed as an indicator of the performance of the public enterprise sector. On this basis, the public enterprises have registered moderately favorable rates of return (in the range of 11-13 percent) throughout most of the 1980s (Table 3). However, on the basis of net profits after tax (on which dividends are based), the rate of return on capital never exceeded 5 percent during the 1980s, and declined sharply in 1990/91 to only 2.3 percent, despite the concessional nature of a significant share of public enterprise borrowing. Moreover, it has been estimated that central public enterprises achieved an ROKD of only 8.5 percent in 1989/90, an earnings rate inadequate to repay long-term loans and at the same time allow reasonable dividends to be paid. In the same year, only 36 of 233 enterprises had an earnings rate of 15 percent or greater, implying that nearly 200 enterprises were inadequate performers by a minimal benchmark that would be applicable to the private sector. Various profitability ratios comparing public and private sector performance are shown in Table 4. On all the measures indicated, the private sector outperforms the public sector, in many cases by large margins. Data for previous years also suggest the same relative outcomes.

The data on the overall profitability of the public enterprise sector mask a wide variation in the performance of different enterprises and sectors. As Table 5 indicates, only the petroleum sector, which dominates the entire public enterprise sector, makes a significant profit. Even within this sector, one enterprise--the Oil and Natural Gas Commission (ONGC)--contributes between one half and three quarters of petroleum sector profits in most years (Table 6). Of the ten most profitable enterprises in 1990/91, which contributed nearly 60 percent of total pre-tax profits, four operated in the petroleum sector.

Apart from the recent increase in the profits of the power sector, most other sectors have registered little improvement during the 1980s. Losses have increased in a number of sectors--chemicals and fertilizers, construction, textiles, steel, and consumer goods. However, no sector or enterprise makes excessively large losses. In 1990/91, the largest losses were registered in chemicals and fertilizers and in steel. The largest loss was made by Rashtriya Ispat Nigam Ltd. (a steel producer), accounting for nearly 16 percent of total losses incurred by loss-making enterprises, while the top ten loss makers contributed 56 percent of the total loss.

The extent to which enterprises meet their noncommercial objectives may be assessed by examining certain nonprofit indicators such as internal resource generation, the contribution to central government revenue, employment, and export earnings. Table 7 shows that gross internal resource generation (net profit after tax less dividends plus depreciation allowances and deferred current expenditure written off) rose steadily during the 1980s. The recourse to internal resource generation for investment financing has fluctuated considerably in recent years, ranging from 45-80 percent. However, in certain years, the loan repayment obligations of the public enterprise sector have significantly reduced the internal resources available for investment expenditure. Public enterprises have generally contributed about one third of total central government revenue in the form of dividends, corporate tax, and excise and import duties. Despite the rapid growth in investment, however, the public enterprise sector has not been able to generate a significant increase in employment. Similarly, the export performance of public enterprises has remained modest, both in terms of the sector's turnover and overall export earnings.

### c. Factors influencing public enterprise performance 1/

It is evident that the incentive framework within which public enterprises operate has undermined the scope for efficiency and created distortions in a number of areas. Public enterprises benefit from protection against both foreign and domestic competition, and preferential access to foreign technology, imports, and subsidized financing, including budgetary support. On the other hand, complex administrative and price regulations have served to control the use of the rents that this system generates, and effectively deprive enterprises of the autonomy essential for efficient management. Thus, rents generated by restrictions on competition are dissipated by the efficiency losses resulting from various controls on public enterprises' commercial behavior, particularly in the areas of investment, financing, and employment.

The relationship between the Government, parent ministries, and public enterprises has been characterized by extensive political involvement in management decisions, especially where the creation and preservation of employment are involved. Many sick units were prevented from closing owing to restrictions on exit, and several private enterprises were taken over by the Government in order to safeguard employment. Given the priority attached to the employment objective and the dominance of public enterprises in certain sectors of the economy, trade unions are especially powerful. As a result, public enterprises tend to be overstaffed, and wages are often

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1/ For a detailed discussion of factors underlying the performance of the public enterprise sector, see Review of Public Enterprises: Propositions for Greater Efficiency in the Central Government Public Enterprises Sector, Vols. I-III, World Bank, 1988, and India: Stabilizing and Reforming the Economy, World Bank, 1992. The rest of this section draws extensively on these studies.

considerably higher than can be justified by the low level of labor productivity. To offset the high labor costs, administered prices are set on a cost-plus basis, often in excess of international prices. Even when public enterprises compete with the private sector, high-cost enterprises benefit from statutory price preferences when supplying other public entities. Moreover, when administered prices are held below costs or enterprises are unable to compete with the private sector, extensive budgetary support can be made available. This budgetary support--in the form of equity or loans--is provided to cover the gap between the investment undertaken by public enterprises and their internal resources plus market borrowing. While budgetary support for public enterprises consistently exceeded the net internal resources generated by these enterprises during the first half of the 1980s, the ongoing process of fiscal consolidation has now sharply reduced the extent of such support to about 1 percent of GDP (from 2 1/2 percent in the early 1980s).

Perhaps the most tightly regulated aspects of public enterprise activity are investment and financing decisions. All public enterprise investment projects need to be approved by the parent ministry and the Planning Commission, even if the project is being fully financed from the enterprise's own internal resources, has been approved by its Board of Directors, and is part of an agreed-upon medium-term corporate plan. Although public enterprises that have signed a memorandum of understanding (discussed below) with the Department of Public Enterprises are exempted from this requirement for projects financed through extrabudgetary resources, the ceilings for the investment levels involved are generally low and barely cover replacement and maintenance costs. Projects requiring investments beyond the ceiling subject to parent ministry approval (which is significant only in steel, power, and coal) need to follow a two-stage investment approval process which may involve considerable delays.

In an effort to make public enterprises more autonomous and at the same time more accountable, in 1987 the Government and some of the larger public enterprises initiated the concept of a Memorandum of Understanding (MOU), similar to the contrat-plan approach adopted under the French system. A one-year contract is signed between the administrative ministry and the relevant public enterprise, specifying a set of targets and the parameters by which the enterprise will be judged, as well as the financial and administrative powers the Government delegates to the enterprise. The performance evaluation index gives weight to both current year performance and to investments in such areas as corporate planning, research, development, and training. The number of enterprises signing MOUs has increased from four in 1987 to 100 in 1990. The MOU system is too recent to allow an assessment of its effect on autonomy, accountability, or performance, although it is generally held that the impact on managerial autonomy has so far been limited. The Department of Public Enterprises has assessed the performance of the 23 enterprises which signed MOUs in 1990/91 as follows: 14 in grade A (excellent), 8 in grade B (very good), and 1 in grade E (poor). However, a number of flaws in the MOU system are evident:

(i) The system has been superimposed over an existing system of control and often adds one more layer to bureaucratic procedures.

(ii) There is asymmetry in the information available to the two parties negotiating the MOU, resulting in the setting of easily attained targets.

(iii) Rewards and sanctions are not sufficiently linked to performance or nonperformance against MOU targets.

(iv) MOUs risk becoming inadequate substitutes for more fundamental reforms, such as deregulation or privatization.

d. Recent policy initiatives and prospects

A comprehensive strategy to address the problems of the public enterprise sector was announced by the Government on July 24, 1991 in the form of a New Industrial Policy Statement. The main elements of this new strategy include the following:

(i) A sharp reduction in the list of activities reserved for the public sector, which would henceforth concentrate on defense, atomic energy, coal, oil, mining of certain important minerals, and railway transport. The implication is that enterprises in the nonreserved sectors would be gradually divested, and become subject to normal market discipline;

(b) A review of the portfolio of public sector investments so as to emphasize areas that are strategic, require high technology, and are essential for infrastructure;

(c) Increased autonomy in management and corresponding accountability by expanding the role of MOUs;

(d) Referral to the Board for Industrial and Financial Reconstruction (BIFR) of chronically loss-making enterprises under the provisions of the Sick Industrial Companies Act (SICA) for the "formulation of revival or rehabilitation schemes" to be accompanied by a social safety net to protect the interests of affected workers; and

(e) Divestment of up to 49 percent of equity in selected public sector enterprises through sales to mutual funds, financial institutions, the general public, and workers, in order to raise resources and promote a more commercially oriented management culture.

A number of actions have already been taken in the context of this strategy. During 1991/92, Rs 30 billion (0.5 percent of GDP) worth of shares in 31 public enterprises were sold to mutual funds, representing an average of 8 percent of the Government's holdings in these enterprises, with further sales planned for 1992/93. The legislation relating to SICA has been amended in order to enable sick enterprises to be referred to the BIFR, a quasi-judicial body which is empowered to issue closure/rehabilitation orders for nonviable enterprises and oversee their implementation. In February 1992, the Government also created a National Renewal Fund, which is endowed with resources to cover the costs of: (i) retrenchment of workers; (ii) retraining and redeployment schemes; and (iii) eventually creating an unemployment insurance fund.

The task of restructuring the public enterprise sector is exceedingly complex and will be time-consuming in view of the technical, political, and administrative constraints involved. To date, the Department of Public Enterprises has classified 54 central public enterprises as chronically sick, i.e., they have made cash losses in the past three years and fully eroded their net worth. Forty of these enterprises have already been referred to the BIFR, and concrete restructuring plans are being formulated. Although DPE has identified 110 enterprises in the manufacturing and services sector as being suitable for divestment, the timetable and pace of privatization are yet to be established. Most of the enterprises to be retained under public ownership (78 in number) are in infrastructure and heavy industry, are deemed to have high social obligations, and to be at the "commanding heights" of the economy. However, although these enterprises represent only 30 percent of the sector by number, they account for 75 percent of value added and 90 percent of net worth. Nevertheless, even gradual privatization can be a crucial element of public enterprise reform if accompanied by measures to increase operational and financial autonomy, reduce protection, and increase competition.

### 5. The public sector and the financial system

Although the private household sector is the principal contributor to India's relatively high domestic savings rate (of about 21 percent of GDP), it is the public sector that has been the main beneficiary of this savings effort, absorbing well over half of total private savings in recent years. The public sector has done so through a number of means, including the extraction of seigniorage and borrowing at below-market interest rates intermediated by an extensive network of government-controlled banks and financial institutions. Moreover, government control over a major segment of the financial system has not only allowed it to direct resources towards itself, but also to determine the allocation of credit and capital within the private sector.

#### a. The Reserve Bank of India and seigniorage

Seigniorage is the purchasing power over goods and services that becomes available when a central bank issues reserve money--i.e., when it borrows from the public using an interest free obligation widely accepted as "money"; the proceeds are generally passed on by the Central Bank to the Government, either through the transfer of profits or, equivalently, through low-interest loans to the Government. The extraction of seigniorage by the Reserve Bank of India (RBI) has grown steadily in relation to GDP over the past three decades (Chart 12). 1/ By the late 1980s, seigniorage had come to average over 2 1/2 percent of GDP and, in effect, to finance about 11 percent of central government spending. As argued below, the bulk of this rise was associated with growing demand for reserve money, which was also propped up by increasing reserve requirements during the 1980s. On the supply side, nearly all of the increase in reserve money over the past three decades can be attributed to RBI financing of fiscal deficits. Although most of the seigniorage was thus transferred in the form of low-interest loans to the Government, a small part of the proceeds was also used to finance the quasi-fiscal activities of the RBI, including grants to development banks, subsidized credit to priority sectors, and an exchange rate guarantee on non-resident Indian deposits.

The distinction between seigniorage--the change in reserve money--and a pure inflation tax--the reduction in the purchasing power of money balances due to inflation--is especially important in India, where the extraction of high levels of seigniorage has not been associated with excessive inflation. 2/ The inflation tax, while rising, has remained well below total seigniorage, averaging about 1.3 percent of GDP during the second half of the 1980s. The reason for this is that real money demand has grown significantly over the years, particularly during the period of accelerated economic expansion in the 1980s when the stock of reserve money rose by over 3 percentage points of GDP. Thus, the Government has been able to garner the inflation tax from a growing tax base rather than from an excessive tax rate.

Chart 13 compares seigniorage levels across a sample of developing countries. Both as a share of GDP and of central government expenditure, seigniorage in India has been higher than in all the other countries examined. Likewise, the inflation tax has been larger than in most comparator countries, the only exception being Mexico (Table 8). This is generally consistent with the prediction of economic theory, which has traditionally explained the inflation tax in terms of economic structure and tax efficiency: normal taxation of income and goods and services is administratively costlier in a relatively less urban and more agriculturally based economy such as India, which necessitates recourse to the inflation tax.

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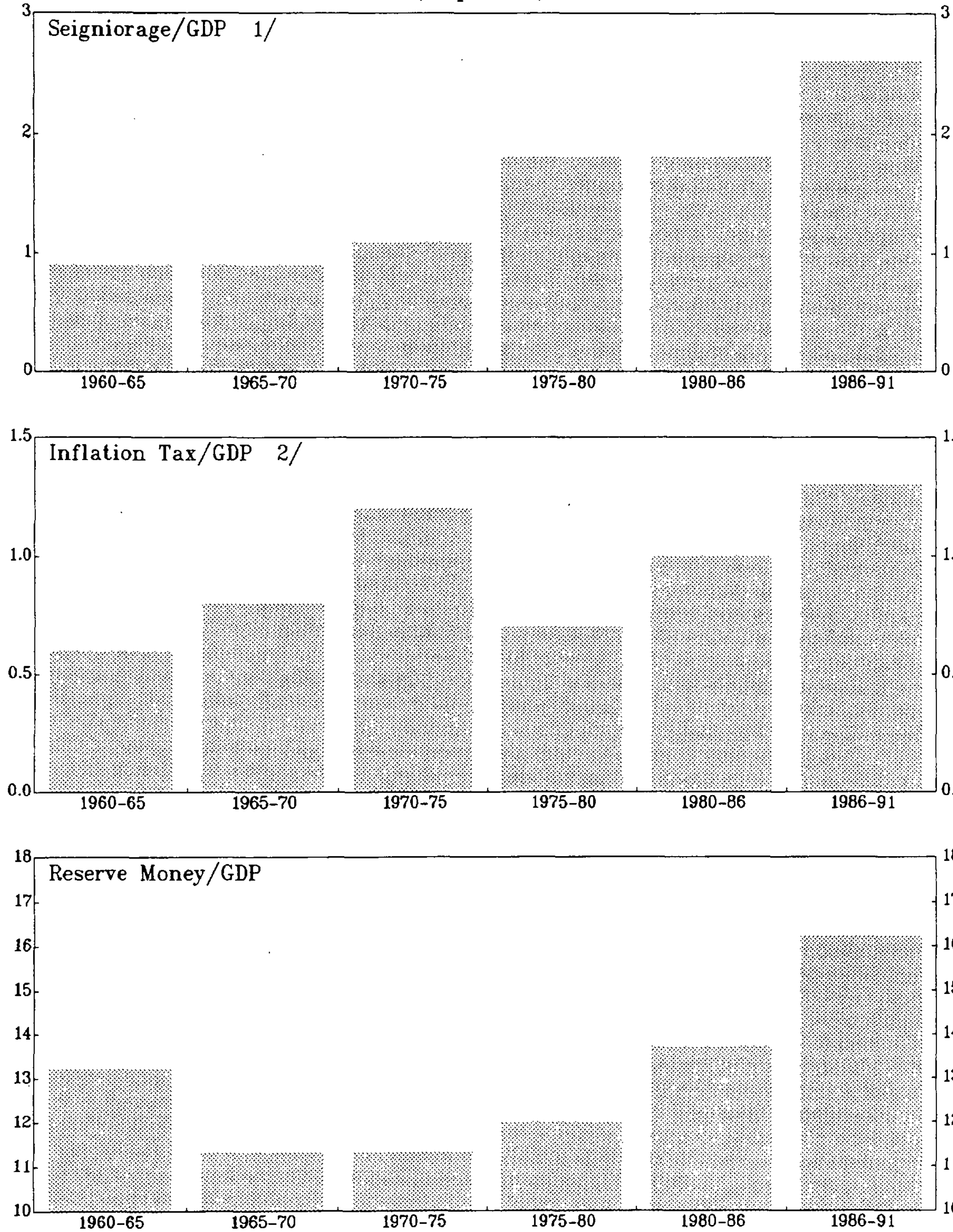
1/ The traditional definition of seigniorage--the change in reserve money--employed here slightly overstates the amount of resources captured by the government to the extent that the RBI pays some interest on required (but not excess) reserves. However, it is a reasonable approximation since the rate of remuneration is well below market rates, and since the bulk of reserve money in any case consists of currency.

2/ The inflation tax is defined as RM(i/1+i), where RM is reserve money and i is the rate of inflation; it is identically equal to seigniorage only if the real stock of RM is constant.

CHART 12

INDIA

SEIGNIORAGE, INFLATION TAX, AND RESERVE MONEY
1960/61-1990/91
(In percent)



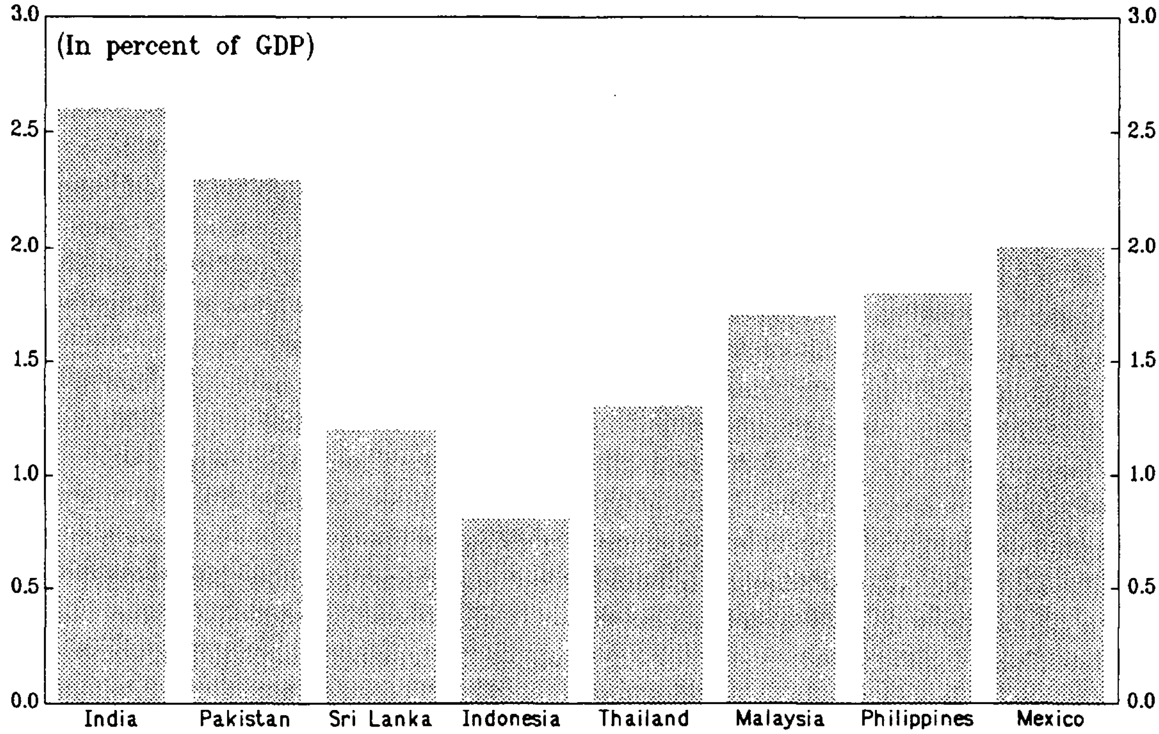

Source: IMF, International Financial Statistics.

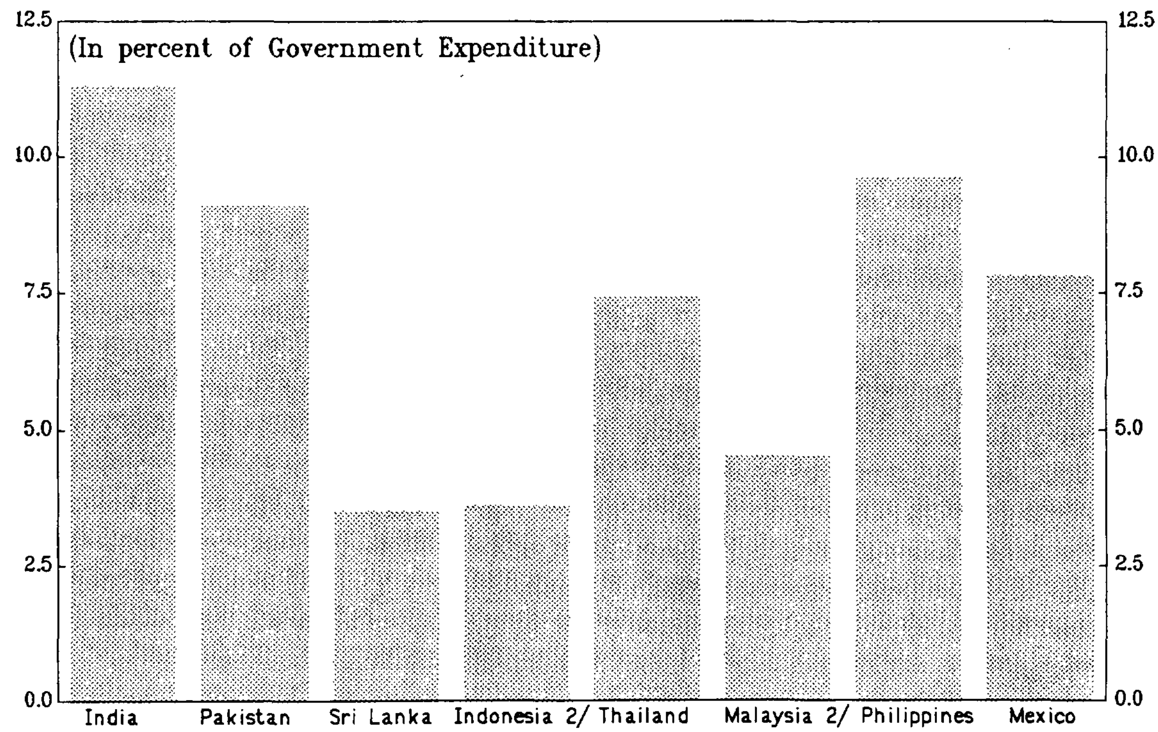
1/ Change in reserve money in percent of GDP.
2/ Reserve money times (i/1+i), where i is the annual rate of inflation in percent of GDP.

CHART 13

INDIA

## AVERAGE SEIGNIORAGE IN SELECTED COUNTRIES 1986-1990 1/




Sources: IMF, International Financial Statistics; and staff estimates.

1/ Data for India and Pakistan relate to fiscal years covering the period April 1986-March 1991 and July 1986-June 1991 respectively; other data are on a calendar year basis.
2/ Data relates to 1986-89.

b. The public sector and commercial banking

The public sector's presence in the financial system is perhaps most visible in the formal banking sector, where 21 nationalized banks control over 90 percent of banking system deposits and advances. Direct ownership has allowed the government to exert a deeper influence on credit allocation than the broad (but, nevertheless, extremely onerous) guidelines on the composition and cost of credit imposed by the RBI. Public sector banks face a large number of additional constraints at the microeconomic level, including the imperative to meet social obligations--such as extension of branches into designated areas--as well as political pressures on decisions relating to loans and staffing. Overall, government intervention has resulted in exceptionally low returns, with the gross profits (i.e., before provisioning) of nationalized banks averaging just 1-2 percent of working funds.

Mandatory bank lending to the government has been a central feature of banking policy in India. As indicated above, an indirect channel for raising resources for the government has been seigniorage, with the required reserves or cash reserve ratio (CRR) serving as a key instrument. Thus, the CRR--which historically had ranged between 4-7 percent of bank deposits--was progressively raised during the 1980s to 15 percent as a means of bolstering the demand for reserve money; commercial bank resources thus garnered by the RBI were effectively loaned to the government. Similarly, banks have also been subject to a more direct form of forced lending through the high statutory liquidity requirement (SLR) that obliges them to hold a large part of their portfolio in the form of government securities at below-market rates of interest. In the face of rising fiscal deficits, the SLR was gradually raised from 20 percent of bank deposits at the start of the 1960s to 38.5 percent by the early 1990s. The CRR and SLR have been the principal instruments for crowding out the private sector, allowing the government to absorb nearly half of the total credit extended by the banking system (Chart 14). As a tax on financial intermediation, they have significantly raised costs in the banking industry; it is estimated that the two together may have added approximately 4 percentage points to the spread between lending and deposit interest rates at end-1991/92--considerably more than in most of Asia's emerging economies. 1/

Aside from the government, public enterprises and quasi-governmental agencies have also been major borrowers from the banking system, accounting for as much as 30 percent of commercial (i.e., non-governmental) credit up until the mid-1980s (see Chart 14). However, public enterprise recourse to the banking system has fallen substantially since then, largely on account of public enterprises' enhanced access to direct market borrowing through the issuance of (tax-free) bonds.

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1/ This calculation is based on a methodology outlined in Goldsbrough and Teja, "Globalization of Financial Markets and Implications for Pacific Basin Countries", WP/91/34; also see op. cit. for a cross-country comparison.

Government intervention has not been limited to directing credit towards itself and other public sector entities. The allocation of credit to the private sector is also controlled through guidelines on minimum lending to "priority sectors". At present, about 40 percent of credit is targeted to priority sectors, with sub-targets for agriculture, small-scale industry, and other areas. Moreover, interest rates on such credit are fixed at levels well below the floor lending rate for non-priority sector loans. Although all domestic banks are expected to observe the guidelines on minimum lending to the priority sector, only public sector banks have fully complied in practice. 1/ Such strictures on the allocation of private sector credit have compromised bank balance sheets. For example, more than half the loans to the agricultural sector are overdue, and even on the basis of fairly flexible accounting criteria, the share of non-performing loans at end-1990/91 was about 8 1/2 percent of the credit extended by the nationalized banks; under the more stringent norms for income recognition and asset classification introduced earlier this year, this ratio is likely to rise.

c. Other public sector intermediaries

The Central Government itself has acted as a financial intermediary, insofar as it has raised a substantial amount of small-savings deposits, and on-lent the bulk of the proceeds to State Governments on a longer term basis. Small-savings schemes have competed directly with commercial bank deposits, and are currently equivalent to one quarter the size of deposits with the banking system.

A similar function has also been performed by several other publicly owned financial intermediaries, including large development banks, insurance companies, provident funds, and mutual funds. These financial institutions have grown enormously over the years, and their combined assets are currently equivalent to about half those of the banking system. Like banks, these financial institutions have also played an important part in financing fiscal deficits: by March 1990, they held over 15 percent of total central and state government debt outside of the RBI. Their larger role, however, has been to finance public enterprises and private sector investment. A recent study found that government-owned financial institutions held nearly a quarter of the equity capital of the top 250 companies in India. 2/ Although much of this represents public sector equity, the financial institutions have nevertheless come to acquire a significant stake in a large number of private companies--and hence a measure of influence over the composition of private sector investment.

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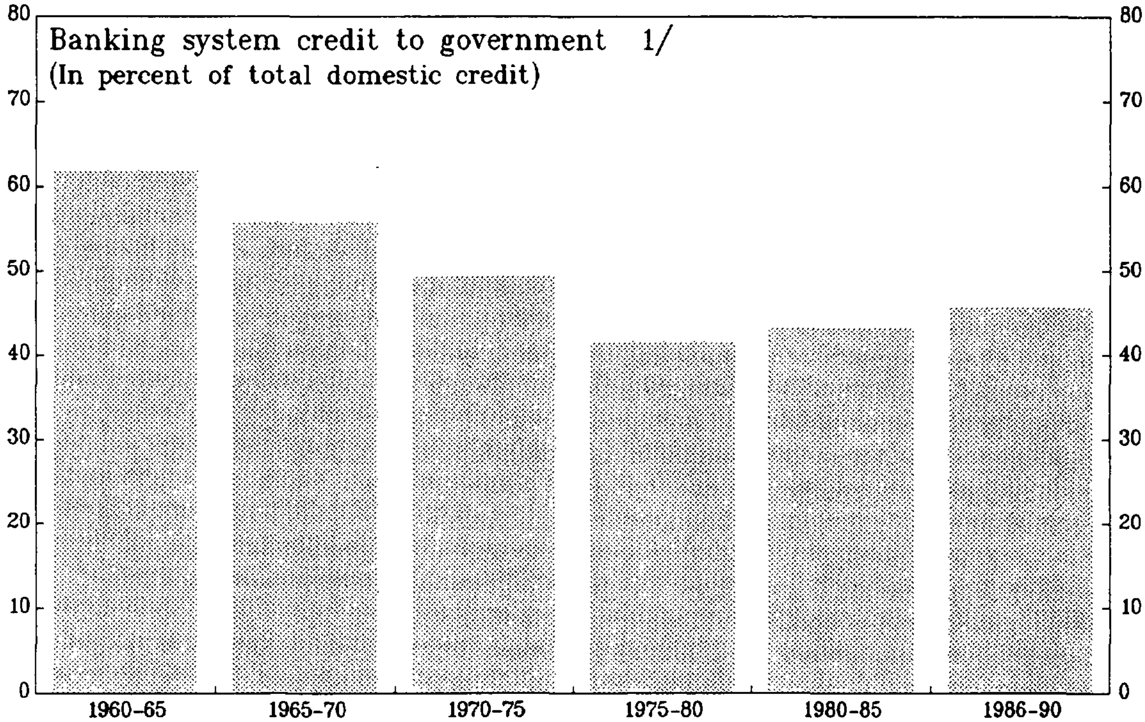
1/ Domestic private banks, in the aggregate, have allocated about one-third of net credit to the priority sector; foreign banks, which are required to allocate 15 percent of credit to priority sectors (without subceilings), have also fallen short of the norm.

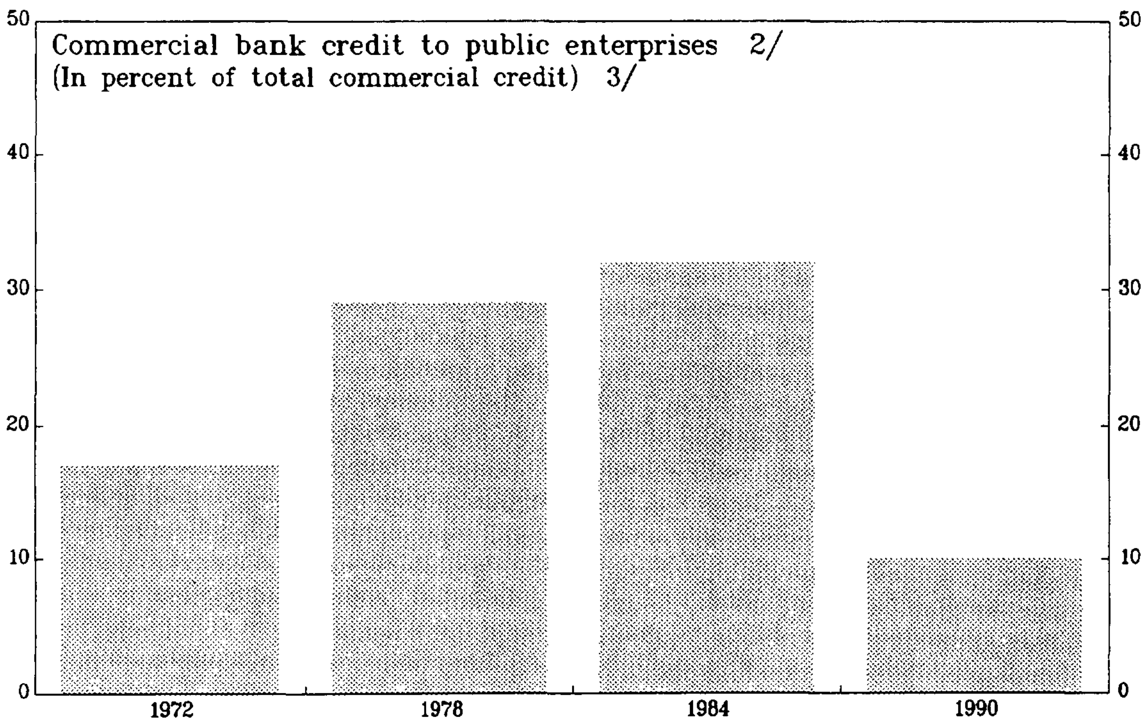
2/ Aridhi, V., "New Pattern in Equity Ownership", The Economic Times, October, 1989.

CHART 14

INDIA

# PUBLIC SECTOR USE OF BANK CREDIT 1960/61-1990/91




Sources: Data provided by the Reserve Bank of India; and IMF, International Financial Statistics.

1/ Consists of total banking system credit to Central and State Governments.
2/ Consists of central and state public enterprises, and quasi-government bodies.
3/ Total commercial bank credit less loans to Central and State Governments; based on accounts over Rs 10,000 at end-March of indicated year.

### d. Financial sector reform

Consistent with the overall strategy of market-oriented reform, the authorities have announced their intention to undertake a fundamental restructuring of the financial sector, particularly in the banking system. The basic blueprint for reform is contained in the Narasimham Committee Report on the Financial System. Although details have yet to be announced, the broad thrust of the reform effort is to reduce the crowding out of the private sector and to encourage a more market-based allocation of financial savings. Thus, medium-term objectives include: (i) reduction in the CRR to about 10 percent; (ii) phasing out of the SLR as an instrument for directing new credit to the government, while moving to market-based interest rates on government securities; (iii) gradual elimination of the interest rate subsidy on priority sector loans; (iv) market-determined lending and deposit interest rates; and (v) a recapitalization of banks, both through infusion of private equity and from budgetary support.

A major start in this direction was made during 1992/93. Most importantly, with effect from April 1992, the SLR on new deposits was lowered from 38.5 to 30 percent; subsequently, the SLR applied to the stock of deposits at the beginning of April 1992 was also lowered by about 1 percentage point. At the same time, the 10 percent incremental CRR, introduced at the height of India's balance of payments crisis as a temporary measure to tighten liquidity, was eliminated, with the resources impounded during 1991/92 to be gradually released. Taken together, banks have over the past six months regained discretion over some 20 percent of each additional rupee mobilized as deposits. Interest rates have also been liberalized, with multiple tiers of fixed lending and deposit interest rates consolidated into fewer bands (in the case of deposit rates, a single uniform ceiling) that have effectively raised the average level; the implied interest subsidy on priority sector loans was also lowered moderately in October. Finally, the groundwork for the recapitalization of banks was set in motion with the announcement of new accounting and income recognition norms, as well as plans for phasing in capital adequacy norms along the lines suggested by the Basle Committee.

## II. Economic Relations between India and the Former Soviet Union

### 1. Introduction

Traditionally, India has had close economic ties with the former Soviet Union (FSU). In the past 20 years, the Soviet Union has consistently been among India's top three trading partners, accounting for a significant proportion of India's exports and nondefense imports, as well as the bulk of defense imports. Capital movements between the two countries were also sizable; while project-related (civilian) debt to the Soviet Union was typically only 1-2 percent of India's total external debt, credits for defense imports made India the largest debtor to the Soviet Union. Both current and capital account transactions were based on a bilateral arrangement which aimed at achieving an overall balance.

The disruptions in the former Soviet Union, culminating in its break-up in late 1991, sharply reduced Indo-Soviet trade and reshaped the long-standing bilateral arrangement. This chapter provides a brief review of Indo-Soviet economic relations. After a summary of the trade and payments system before the dissolution of the FSU, the chapter discusses recent developments in bilateral trade and capital flows, the current trading and settlement arrangements, and developments so far in 1992/93.

## 2. Bilateral arrangements until 1992

India has had a bilateral payments arrangement with the Soviet Union since 1953. Until 1992, the framework of the arrangement remained broadly unchanged. 1/ Bilateral trade agreements were signed for a period of five years, while a trade protocol, specifying the goods to be traded, was worked out for each calendar year. Prices of traded goods could be quoted in any currency, but all payments were made in rupees, with the Reserve Bank holding a central account. Since 1978, the rupee-ruble exchange rate (the protocol rate) was fixed on the basis of a special exchange rate (initially Rs 10 per ruble), with the rupee value linked to a basket of the 16 original SDR currencies; the protocol rate was adjusted whenever the value of the rupee changed by more than 3 percent against the basket. At end-1991/92, the officially notified protocol rate stood at Rs 31.79 per ruble. In this chapter, all conversions of rubles into rupees are at the protocol exchange rate, and all conversions of rupees into U.S. dollars are at the official exchange rate. Negotiations are currently under way between India and representatives of the FSU on the appropriate exchange rate to be used for converting India's ruble debt to the FSU.

The annual trade protocol typically provided for a planned (civilian) trade surplus, approximately equal to India's debt service obligations. These obligations arose from both project-related (nondefense) credit and from military equipment supplied on credit. While the agreement aimed at balanced payments (exports plus disbursements of Soviet loans were designed to equal imports plus debt service), surpluses or deficits arising from deviations from the plans were allowed in practice. Any payments imbalance resulted in a corresponding change in the Soviet Union's account with the Reserve Bank--either an increase in the rupee balances held by the Soviet Union, or so-called technical credit extended by India. The rate of interest on the rupee balances held by the Soviet Union and the rate of interest charged by India on technical credit were both equivalent to the rate on 91-day treasury bills (4.6 percent since 1974).

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1/ For more details on the traditional bilateral arrangement, see "Bilateral Payments Arrangements with East European Countries," Chapter VIII, pp. 76-84, in India--Macroeconomic Trends and Policies (SM/90/104).

The bilateral arrangement was perceived to have several benefits to India, although prices appear to have been close to those prevailing in world markets. First, the rupee trading arrangement helped India to protect its free foreign exchange reserves. Second, it provided a stable source of supply for a number of essential items. There was also a common perception in India that the Soviet Union provided Indian manufacturers with a captive market for products (especially consumer goods) that were not easily marketable elsewhere. This factor led to the emergence of a large number of exporters that specialized in rupee trade.

### 3. Recent trends in Indo-Soviet trade and capital flows

#### a. Nondefense trade

In the 1970s and 1980s, the Soviet Union accounted for 10 percent of India's nondefense trade flows--14 percent of exports and 6 percent of imports (Chart 15 and Table 9). Exports were well diversified, with a composition similar to that of India's overall exports (Table 10). Manufactures--such as engineering goods, chemicals, textiles and garments, and leather and leather products--accounted for two thirds of the total, and primary commodities--tea, coffee, rice, and spices in particular--were responsible for the remainder. On the import side, crude oil and petroleum products accounted for about three quarters of the total, and changes in the import share of the Soviet Union reflected mainly fluctuations in international oil prices. Non-oil imports were mostly intermediates (including fertilizers, chemicals, and nonferrous metals). While the private sector accounted for most of the exports to the Soviet Union, imports (being predominantly bulk items) were mainly undertaken by Indian public enterprises.

As indicated in Chart 16, throughout the period, a worsening in the hard-currency trade deficit was usually partly offset by an improvement in the bilateral account, and vice versa. 1/ With few exceptions, the bilateral trade account showed a surplus for India. In the late 1980s, the surplus rose sharply, reaching $1.5 billion in 1990/91, as rupee exports benefitted from some of the measures that boosted overall exports, and as import value growth was checked by relatively low world oil prices. Moreover, growing trade surpluses were needed to offset higher debt service payments falling due.

In 1991/92, nondefense trade with the former Soviet Union declined sharply to about half of the previous year's level. The decline was caused mainly by the cumulative impact of a wide variety of changes in the Soviet economy, including the collapse of production in a number of core industries and the loosening of traditional ties with Soviet trading houses. These

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1/ This implies a statistically significant negative correlation between annual changes in the trade accounts with the Soviet Union and those with the rest of the world.

changes, together with the increased preference of Soviet exporters for hard currency, greatly reduced India's ability to import from the Soviet Union. Given an already large cumulative trade surplus in favor of India, the drastic decline in imports imposed a severe constraint on India's exports to the Soviet Union. The decline in bilateral trade was exacerbated further by the measures taken by the Indian authorities since September 1990 (such as tightening the import intensity requirements for rupee exports). These measures were taken in response to an unusually high growth of exports to the Soviet Union in April-September 1990, when exports to hard currency markets were being routed through the Soviet Union to take advantage of the difference between the official ruble exchange rate and its market value.

The collapse of the rupee trade was also accompanied by a shift in the composition of this trade. The share of primary commodities in India's rupee exports dropped sharply, reflecting the relatively easy substitutability of these exports between the rupee area and hard currency markets. On the import side, the share of crude oil and petroleum products declined as Soviet oil production fell considerably.

b. <u>Civilian debt</u>

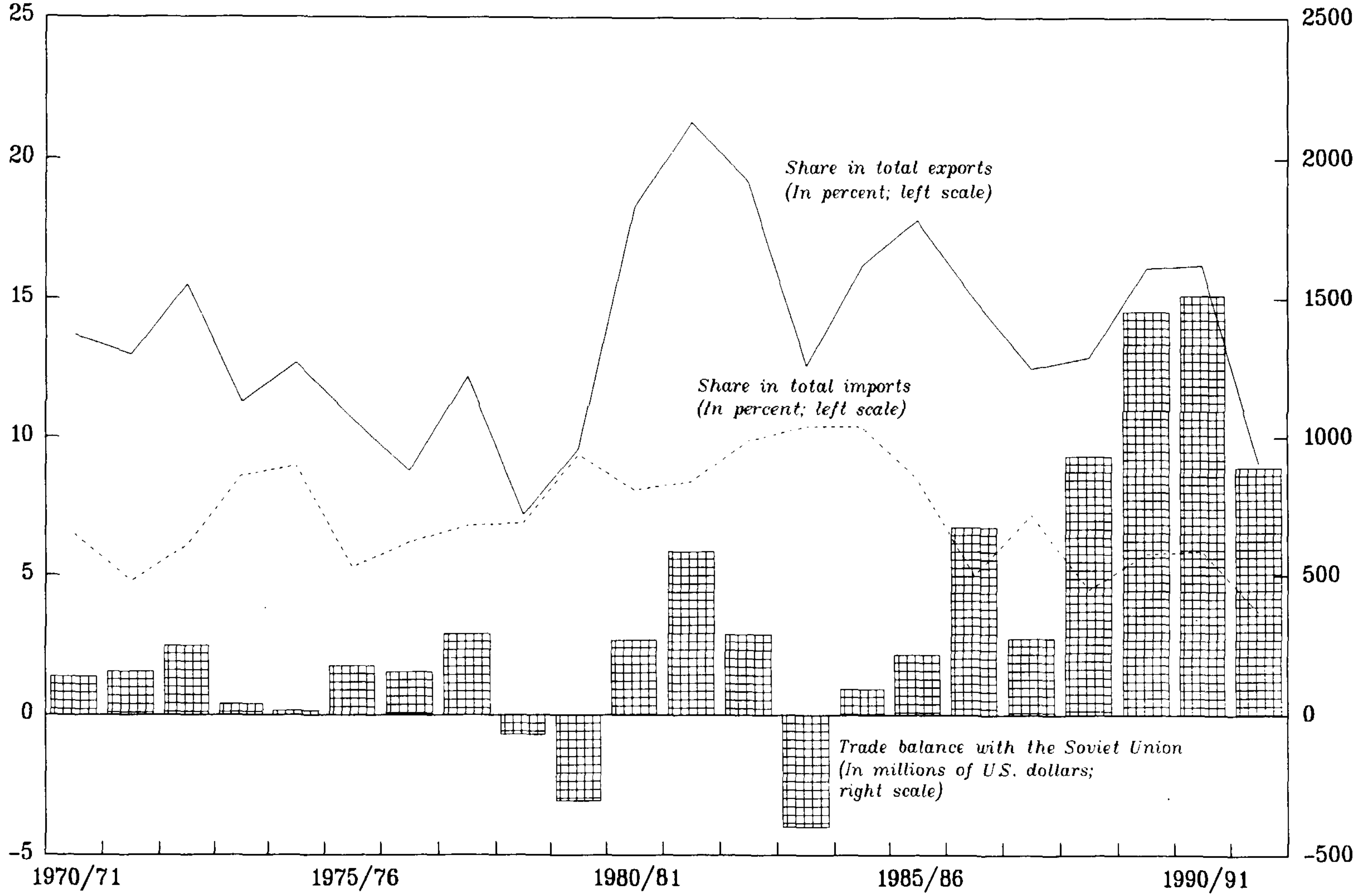
Soviet aid to India for civilian projects began in 1955. Credits were extended for projects covering steel plants, heavy machine building, coal mining machinery, heavy electricals, oil refining, thermal power, oil exploration, and manufacture of drugs and medical equipment. At end-March 1992, India's outstanding nondefense debt to the Soviet Union amounted to \$1.2 billion (converted at the protocol exchange rate)--8 percent of India's bilateral debt and 1 1/2 percent of India's total civilian debt (Table 11 and Chart 17). This debt was denominated in rubles, but no ruble flow actually took place. The disbursements were in kind (plants and machinery) or in rupees in the case of the local cost component. Debt servicing took place in rupees, into the central account held by the Soviet Union with the Reserve Bank.

Soviet civilian aid to India was extended on concessional terms--most credits were repayable over a period of 15-20 years, with a grace period of three years and an interest rate of 2.5 percent. In the five-year period ending 1990/91, annual debt service payments more than doubled to \$90 million, whereas new disbursements were steady at around \$150 million per annum. In 1991/92, however, new disbursements fell sharply to one third of the previous year's level, while debt service payments continued to rise.

CHART 15

INDIA

# CIVILIAN TRADE WITH THE FORMER SOVIET UNION, 1970/71-1991/92

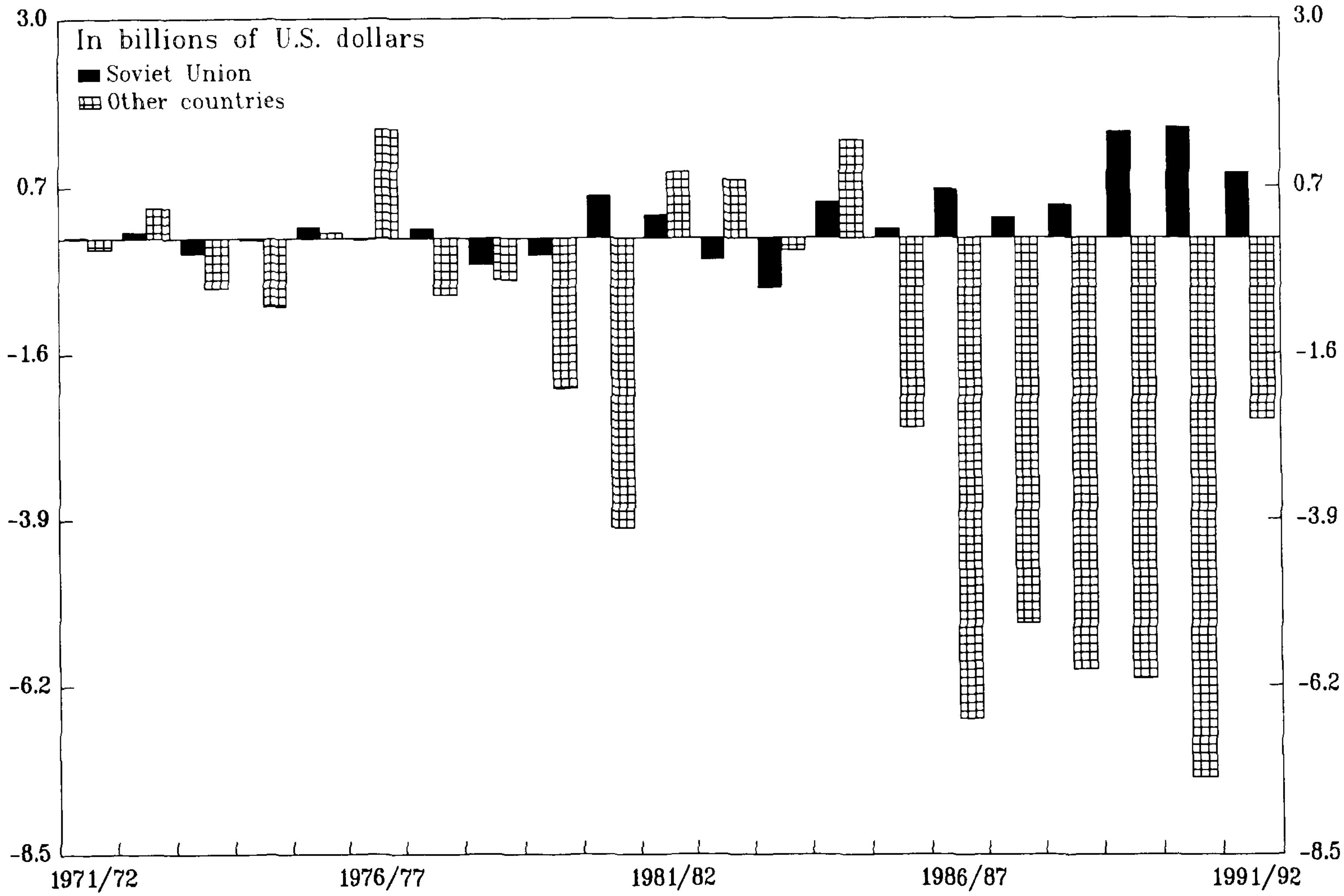



Sources: Data provided by the Indian authorities; and staff estimates.

CHART 16

INDIA

## CIVILIAN TRADE BALANCE, 1971/72-1991/92 1/




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

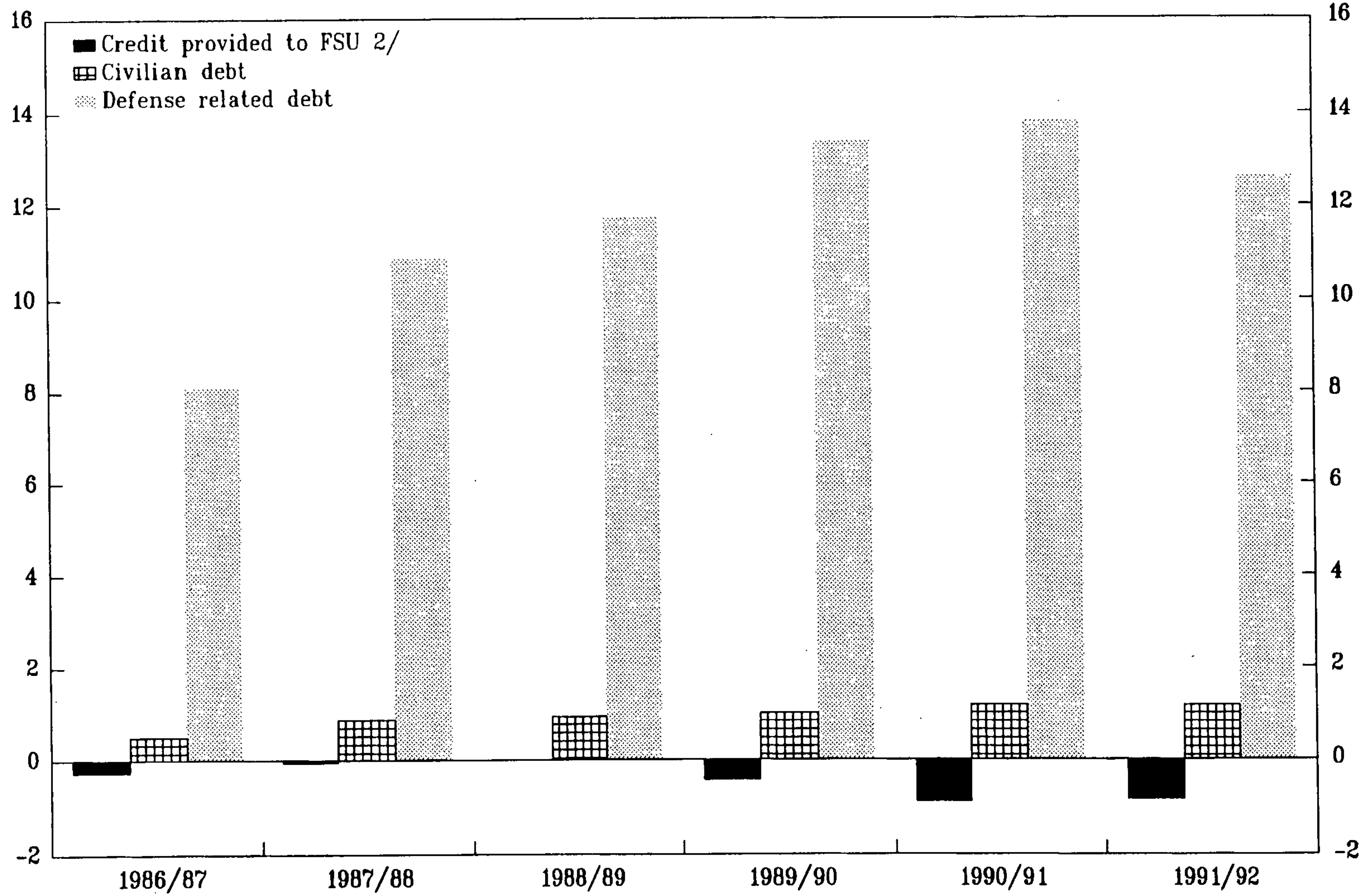
1/ Customs basis.

CHART 17

INDIA

# CREDITS AND LIABILITIES TO THE FORMER SOVIET UNION, 1986/87-1991/92

(In billions of U.S. dollars; end of period) 1/




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

1/ Civilian and defense-related debt are converted at the protocol exchange rate.
2/ Includes technical credit and RBI credit to VEB.

c. Defense imports and military debt

A major importer of defense equipment for several years, India spent about 3 1/2 percent of its GDP on defense in the 1970s and 1980s. 1/ In the first few decades after independence, India relied almost exclusively on the FSU for its defense imports. More recently, the sources have become more diversified, although the Soviet Union remained the main supplier. Defense imports are undertaken primarily by the Ministry of Defense, with all cash payments and debt service obligations included in the Central Government's budget, and also by defense-related public enterprises, which are outside the budget. Until 1990/91, the bulk of defense imports from the Soviet Union was supplied on credit, but, since then, cash payments have become more common.

By end-1991/92 India had accumulated an outstanding stock of defense debt to the Soviet Union of $12.6 billion (if converted at the prevailing protocol exchange rate)--one sixth of India's total nondefense debt, and over four fifths of India's total military debt. 2/ Like their civilian counterparts, defense credits have been given on concessional terms, with typical terms being a grace period of 2-3 years, repayment over 10-15 years, and an interest rate of 3 percent.

There are no comprehensive historical data on the servicing of military debt to the Soviet Union, but the Government has indicated that for 1992/93 the payment obligations are Rs 35.8 billion ($1.4 billion at the protocol rate)--almost one fifth of the debt service on civilian debt. 3/ About 90 percent of these payments are made by the Ministry of Defense, and are included in the 1992/93 Budget appropriations, while the defense public enterprises are responsible for the remainder. It is possible to draw some conclusions about defense transactions with the Soviet Union on the basis of the size of the nonconvertible rupee budget of the Ministry of Defense in recent years (shown in Table 11). Almost all of this budget, which includes

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1/ See Daniel P. Hewitt, "Military Expenditure: International Comparison of Trends," IMF Working Paper No. 91/54 (May 1991). Information on arms imports is also available from various issues of World Military Expenditures and Arms Transfer, published by the United States Arms Control and Disarmament Agency.

2/ Defense-related debt is not included in India's official debt statistics, which include only civilian debt to the former Soviet Union converted at the protocol exchange rate.

3/ The compilation of comprehensive and consistent series has been made more difficult by the fact that data collection has been decentralized in the three armed services, the various departments of the Ministry of Defense, and the defense-related public enterprises. The accounting practices in these agencies have been neither uniform nor consistent over time. Moreover, the various agencies collect data only on cash payments and debt service, and not data relating to expenditure on actual military imports.

cash defense imports and debt service on military imports from the rupee area, but excludes defense-related transactions by the defense public enterprises, was related to the former Soviet Union (the other remaining rupee trade partners are the Czech and Slovak Federal Republic and Romania, which have not recently had any major military transactions with India). No breakdown is available for 1986/87-1991/92, when the nonconvertible rupee budget averaged $1.4 billion per annum. However, for 1992/93, almost 80 percent of the total budgeted allocation of Rs 41 billion ($1.6 billion at the protocol exchange rate) is for servicing military debt to the former Soviet Union, with the remainder intended for cash imports, mainly from the Russian Federation.

d. Technical credit and the payment mechanism

Depending on whether India had a deficit or a surplus, a payments imbalance was settled by an accumulation of rupee balances in the Soviet Union's account with the Reserve Bank or by so-called technical credit extended by India. The Soviet Union held current accounts with designated commercial banks in India and a central account with the Reserve Bank. The current account was used for working balances. Any surpluses in excess of working balance requirements had to be transferred to the Reserve Bank, which invested them in treasury bills. Whenever the Soviet Union needed to make payments, the Reserve Bank discounted these bills and transferred rupees to the designated commercial bank. If India incurred a surplus, the Government provided technical credit to the Soviet Union. Provisions for these credits were included in the Central Government's budget.

The outstanding stock of technical credit was usually small, as payments imbalances were generally reversed quickly. However, in the late 1980s, when India's civilian trade surplus with the Soviet Union rose sharply, technical credit grew rapidly and reached Rs 16.6 billion ($0.9 billion) in March 1991. By end-March 1992, India's outstanding claims on the former Soviet Union had risen to Rs 21.7 billion. Only half of this amount, however, was accounted for by technical credit, which had declined from a peak of Rs 21.6 billion at end-December 1991, as large debt service payments had fallen due in early 1992. The other half was Reserve Bank credit that had been extended to Vneshekonombank (VEB) for settling payments to Indian exporters. 1/

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1/ On December 27, 1991, the Reserve Bank temporarily suspended payments to Indian exporters from the central account of the VEB with the Reserve Bank. These pipeline payments were treated as Reserve Bank credit to the VEB. In February 1992, the Reserve Bank resumed payments for certain exports which were already in the pipeline. At end-March 1992, this credit stood at Rs. 10.9 billion.

4. The current trading and settlement arrangements

With the breakup of the Soviet Union in 1991, the existing trade agreement, which was valid until end-1995, had to be replaced by separate agreements with different countries of the Commonwealth of Independent States (CIS). So far, negotiations with the Russian Federation (which used to account for about 70 percent of the trade), Ukraine (15 percent), Kazakhstan, Kyrghyzstan, Turkmenistan, and Uzbekistan have been concluded. The new trading arrangements do not follow a uniform pattern, but reflect the differences in the new economic and institutional structures prevailing in the various CIS countries. The 1992 trade protocol with the Russian Federation, discussed in detail below, provides for trade on a bilateral basis, but also permits trade in other forms to take place outside the indicative list given in the protocol. With the exception of Uzbekistan, which has an agreement similar to that signed with the Russian Federation, all the other agreements are based on trade in freely convertible currencies. 1/

The Indo-Russian trade protocol for 1992 was finalized in February 1992, and a new five-year trade agreement, which will remain valid until end-1996, was signed in May. The protocol is intended to provide a transitional arrangement (presently for a year) for trade and commercial transactions. Indian exports to the Russian Federation are targeted at $1.1 billion for calendar year 1992, and include a similarly wide range of primary and manufactured products as covered in the protocols with the former Soviet Union. India's imports from the Russian Federation are expected to be a matching $1.1 billion (including $650 million of crude oil and petroleum products and $400 million of defense supplies). 2/

The 1992 trade protocol and the five-year agreement with the Russian Federation include two novel features. First, apart from the total turnover of $2.2 billion for 1992, both parties are free to import and export goods and services outside the protocol on the basis of counter trade, freely convertible currencies, or any other internationally recognized form of business cooperation. 3/ In this regard, a provision of $200 million has already been made for fertilizer imports by India under a counter-trade arrangement. Second, after a transitional period, trade between the two

1/ Although India does not currently have bilateral agreements with the remaining CIS countries, a notice issued by the Government on October 5, 1992, permits trade between India and any CIS country either in freely convertible currencies or through counter-trade arrangements.

2/ Since a system of obligatory state orders no longer exists in Russia, however, there is no mechanism for ensuring balanced trade. In particular, according to the trade agreement, centralized (i.e., government) imports by Russia from India are to be limited to $350 million.

3/ Beyond this, the October 1992 notice mentioned earlier also provides for the possibility of trade in convertible currencies even in the case of commodities included in the trade protocol.

countries is to be conducted in freely convertible currencies. For the time being, trade is denominated in U.S. dollars, while payments are made in clearing dollars that in India are held in escrow accounts in commercial banks. This arrangement enables Indian exporters to the Russian Federation to benefit from the liberalized exchange rate management system introduced in March 1992. 1/

The procedure for settling payments imbalances has also changed. A memorandum of understanding signed in May 1992 sets for the first time a ceiling on additional technical credit of $285 million for 1992. Furthermore, India currently settles its debt service obligations to the FSU on an account basis only (into the FSU's old central account in the Reserve Bank) to reduce the outstanding stock of technical credit. There are two reasons for this practice. First, the appropriate rupee-ruble exchange rate to be used in valuing debt and debt service payments is still being discussed. 2/ Second, the Indian authorities have taken the position that payments to the accounts of the individual republics of the CIS cannot be made until the CIS states have determined among themselves the allocation of the assets of the former Soviet Union.

5. Developments in 1992/93

In the current fiscal year, India's trade with the former Soviet Union has continued to decline sharply. Despite an advance technical credit of $125 million to the Russian Federation to facilitate exports of primary commodities, India's exports to CIS members amounted to only about $300 million in April-August, some 55 percent below last year's already depressed level. Imports from the CIS, which currently form an effective constraint on India's ability to export to these countries, have been even more sluggish. By end-September 1992, only 60,000 tons of oil out of the five million tons envisaged for 1992/93 had been imported, with firm commitments for only one million additional tons for delivery by the end of the year.

The continuing surplus in civilian trade notwithstanding, India's on-account debt service payments, together with the virtual drying up of disbursements of civilian aid from the FSU, led to a reduction in the stock of technical credit to Rs 6.4 billion ($250 million) by mid-October 1992. Moreover, Reserve Bank credit to the VEB (the other component of India's claims on the former Soviet Union) was completely liquidated by end-June 1992.

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1/ The liberalized exchange rate management system is described on pages 42-43 of EBS/92/96, 6/3/92.

2/ As indicated above, the exchange rate used in this chapter is the latest officially notified protocol rate (Rs. 31.79 per ruble since November 1991). After the dissolution of the former Soviet Union, an Interstate Committee for External Debt and Assets was created in December 1991, which is responsible for negotiating with foreign debtors on behalf of the FSU states the terms of repayment of ex-Soviet claims.

# III. Exports: Recent Performance, Competitiveness, and Trade Liberalization

India's share in world exports has declined dramatically over the past 40 years. Reflecting the critical role exports will be required to play in the attainment of external viability over the medium term, recent government initiatives in the area of trade policy have sought to enhance incentives for the export sector and improve its competitiveness. This chapter examines India's export performance over the past decade, as well as the implications for competitiveness of recent changes in the trade regime, and assesses the possible impact of further trade liberalization. The recent sharp improvement in competitiveness has already helped initiate the process of reversing the declining trend in the share of world export markets; moreover, the potential export response to further trade liberalization remains substantial, as evidenced by the recent experience of other developing countries that have undertaken comprehensive trade liberalization.

## 1. Recent export performance

India's export performance since independence has been generally disappointing. Its share in world markets declined steadily from 2 percent in 1950 to about 1/2 percent throughout most of the 1980s. This performance resulted largely from the anti-export bias of a trade and development regime that emphasized self-sufficiency, quantitative controls, and import substitution behind high tariff walls. Though various schemes were introduced to mitigate this inherent anti-export bias, they were designed primarily to facilitate the export of surplus commodities rather than to foster efficient specialization. 1/

Beginning in the mid-1980s, the Government initiated a modest and gradual liberalization of the import regime designed to facilitate the import of capital goods, raw materials, and technology in order to expand and modernize the industrial sector by reducing some of the supply side constraints. 2/ The vehicle used for these changes was the long-term import/export policy statements which sought to liberalize, on a priority basis, selected imports of capital goods and raw materials, by shifting them

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1/ For example, the Cash Compensatory Scheme (CCS), which was introduced in 1966 to offset the domestic excise and octroi duties that exporters had to pay, focused on a limited group of nontraditional exports such as chemicals and engineering goods (See India's Exports by Martin Wolf, OUP, 1982). In addition, it was regarded as a temporary measure: a means of overcoming the short-term bottlenecks to exports, rather than a vehicle forddressing deep-seated disincentives implicit in the trade policy regime.

2/ The proposals of various committees established by the Government in the area of trade policy are discussed chronologically by Sunanda Sen and R. Upendra Das in "Import Liberalization as a Tool of Economic Policy since the Mid-Eighties", Economic and Political Weekly, March 21, 1992.

to the Open General License (OGL) list; the corresponding import tariffs were reduced from a peak of about 100 percent to 25-40 percent for exporters (Table 12). 1/

Moreover, during this period, many of the export promotion incentives that were introduced several years earlier were deepened both by increasing financial incentives and by streamlining various procedures. These included: (i) raising of the Cash Compensatory Support rates to reflect the actual payment of indirect taxes, such as excise duties and sales taxes; (ii) expansion of the Advance License Scheme for the import of duty-free raw materials for exports, and reduction of bureaucratic delays in the granting of Advance Licenses; (iii) simplification and rationalization of the Duty Drawback system, which reimburses exporters for tariffs paid on imported raw materials and intermediates, and for central excise duties paid on domestically produced inputs used for export production; (iv) extension of the scheme for REP licenses to all exporters; moreover, firms could also import any items in the canalized and limited permissible lists 2/; and (v) effective from April 1989, profits from exports were made fully exempt from income taxes. At the same time, export competitiveness was improved as a result of a gradual but substantial depreciation of the rupee both in nominal and in real terms (discussed in more detail in Section 2 below).

In response, export volume grew by an unprecedented 12 percent per annum on average during the second half of the 1980s, leading to a modest increase in India's world market share in a number of commodities, including garments, rice, and iron ore. India's export performance during this period was comparable to that of Korea, although the growth rate was less impressive than that registered by some of the faster growing Asian economies, e.g., China, Thailand, and Malaysia (Chart 18). Although concentrated in manufactured products, the growth was broadly based within this category,

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1/ In addition, in October 1986 the Government decided to allow duty-free or low-duty import of capital goods in 15 identified "thrust" industries with favorable export growth prospects: packaged tea; processed cereals; processed foods; marine products; iron ore; leather and leather goods; handicrafts and jewelry; capital goods and consumer durables; electronic goods and computer software; basic chemicals; fabrics; ready made garments; woolen fabrics and knitwear; projects and services; and granite.

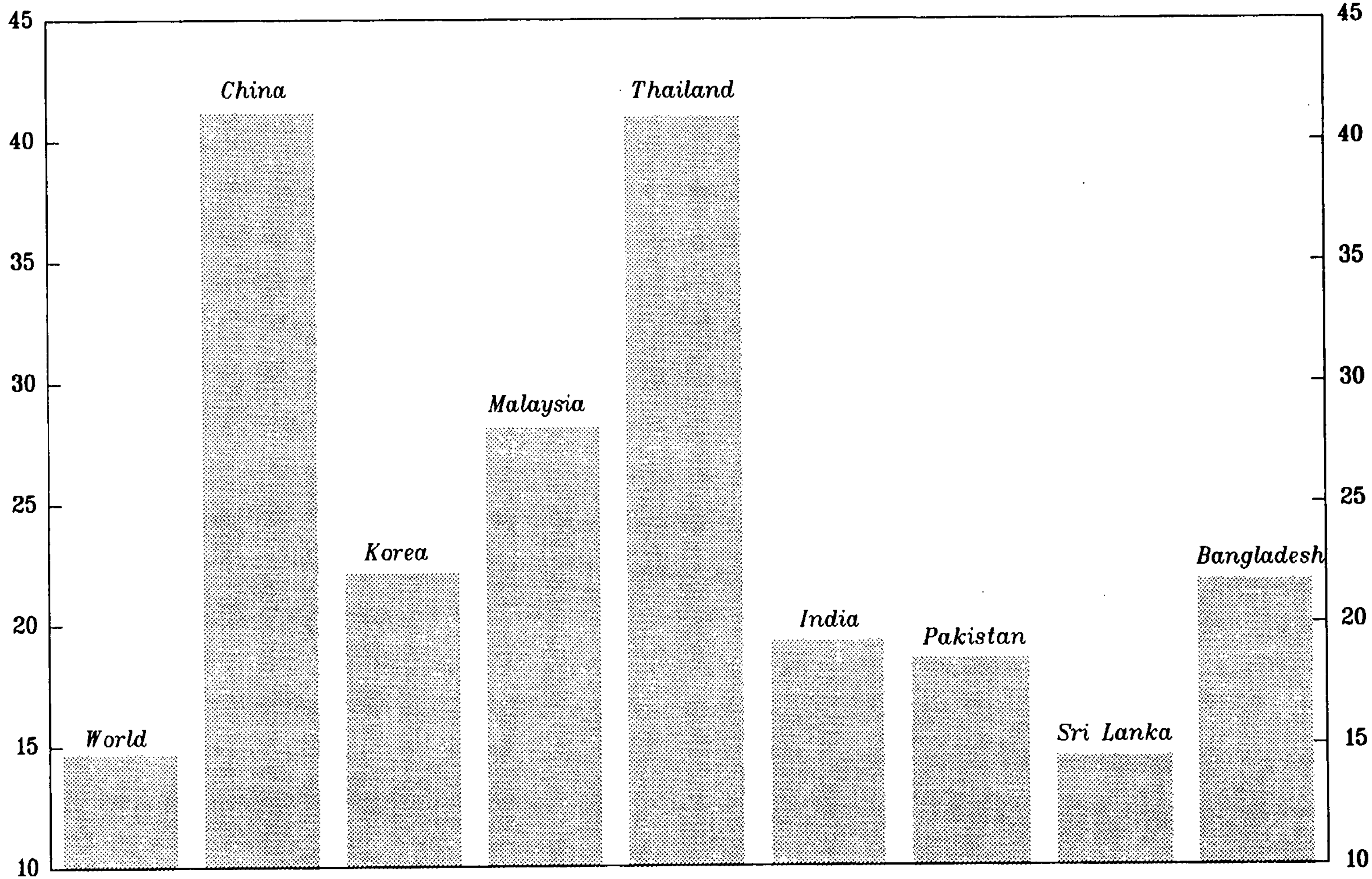
2/ Originally the import replenishment schemes (REPs) limited exporters' import entitlement to their actual requirements for the products exported. The scheme was replaced by the EXIM scrip in July 1991, which in turn was replaced by the dual exchange rate system in February 1992. Apart from increasing the incentive for exporters, this policy change also contributed significantly to the liberalization of the import regime by making QRs less binding. For more details see Section 2 below.

CHART 18

INDIA

## COMPARISON OF AVERAGE ANNUAL GROWTH RATE OF EXPORTS, 1986-91 1/

(In percent)




Source: Direction of Trade Statistics, International Monetary Fund, various issues.

1/ In terms of U.S. dollars.

comprising gems and jewelry (which account for almost one fifth of exports), 1/ engineering goods, chemicals, leather and leather goods, and textiles and garments (Table 13). However, from 1990, export growth slowed sharply owing to: (i) the severe import compression measures that were put in place in October 1990, which constrained supply of critical imported inputs 2/; (ii) a collapse in trade with the former Soviet Union (FSU); and (iii) the world economic slowdown, and, in particular, the recession in the United States. However, there are indications that export growth has begun to recover in 1992/93, despite a further sharp decline in trade with the CIS; in the first five months of 1992/93, exports to the general currency area were 11 percent higher in dollar terms than a year earlier.

The evidence on the impact of the adjustment in the real exchange rate and improvements in the export incentive schemes on the profitability of exporting firms in the second half of the 1980s suggests that these changes have increased export profitability, especially when the latter is calculated on a variable cost basis. Table 14 indicates the profitability levels for a sample of domestic and export producers based on a recent World Bank survey. The decline in export profitability (without incentives) registered in 1985/86 can be partly attributed to the exchange rate appreciation over several preceding years. It can be argued that the devaluations effected in 1985/86 had a positive impact by 1986/87, when the profitability of exporting without incentives, albeit still negative, improved significantly. More importantly, export profitability on a variable cost basis increased sharply, allowing more firms to export their surplus production with positive profits. Although no comparable data exist for more recent years, the profitability of exporting is likely to have improved more in the second half of the 1980s owing to further substantial real exchange rate depreciation, the streamlining of export incentives, and the continued deregulation that took place during this period.

## 2. Current export competitiveness

An assessment of the current competitiveness of India's export sector is rendered difficult by the complexity of India's trade regime. The effect of the major changes in this regime on incentives, including the significant simplification introduced in April 1992, is inherently hard to quantify. Chart 19 shows developments since 1980/81 in both the real effective exchange rate and the real effective rate facing exporters, incorporating the estimated impact of the cash compensatory scheme and the premium on REP/EXIM scrip licenses. Both indicators show a major gain in competitiveness over the last decade; in particular, the real effective rate facing exporters indicates an average gain in competitiveness of 11 percent per

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1/ Though gems and jewelry were an important component of the increase in total exports during this period, a large fraction consisted of the re-export of finished products made from imported uncut gems. The value added was therefore as low as 25 percent in some years.

2/ These emergency measures were lifted completely by February 1992.

annum over the six years since 1985/86. The dominant factor in this gain is a substantial depreciation of the real exchange rate, which more than offset the effect of the abolition of the cash compensation scheme in July 1991. The two indicators converge in March 1992 with the replacement of the EXIM scrip by the dual exchange rate system. 1/ The overall impact of this change is a further boost to aggregate export competitiveness (as measured by the real effective exchange rate facing exporters) of around 4 percent.

Developments in other factors that influence exports reinforce this indication of improved export competitiveness. One important cost facing exporters is the high tariff rates on imported inputs (see below). These costs have been eased by the enlargement and administrative simplification of the Advance Licensing scheme. The recently introduced trade regime also provided for an expansion of the schemes permitting the import of capital goods at lower rates of duty, which required exporters to effect a corresponding minimum level of exports over a specified period. For indirect exporters not eligible for such schemes, the average import duty collection rate has declined from more than 60 percent in 1987/88 to around 50 percent in 1991/92, which nevertheless remains extremely high by international standards. 2/ Administrative restrictions on imports have also been eased with the abolition of the temporary foreign exchange controls imposed in 1991 and the adoption of a much more liberal trade regime in April 1992, under which most raw materials and virtually all capital goods were removed from the negative list.

Preliminary sectoral calculations of the impact of the recent policy changes confirm the conclusions of a gain in competitiveness. Despite the abolition of the cash compensation scheme, the 19 percent devaluation of the rupee against the dollar in July 1991 led to an increase in competitiveness for all sectors, particularly those that had not benefitted from earlier incentives and that had relatively low import intensities. Thus, the primary sectors (agriculture and mining) appear to have enjoyed the most dramatic gains.

All these factors suggest that Indian exporters enjoy a relatively much better competitive position in mid-1992 than at any point during the previous decade. One possible concern, however, is that the impact of this improvement could be dampened by similar gains in competitiveness by other exporters in the sub-continent, especially Pakistan. This proposition was examined by looking at the share of exports (by the UN SITC commodity classifications at the three-digit level) from India and Pakistan in major third markets during 1988-90. Only in five markets, accounting for

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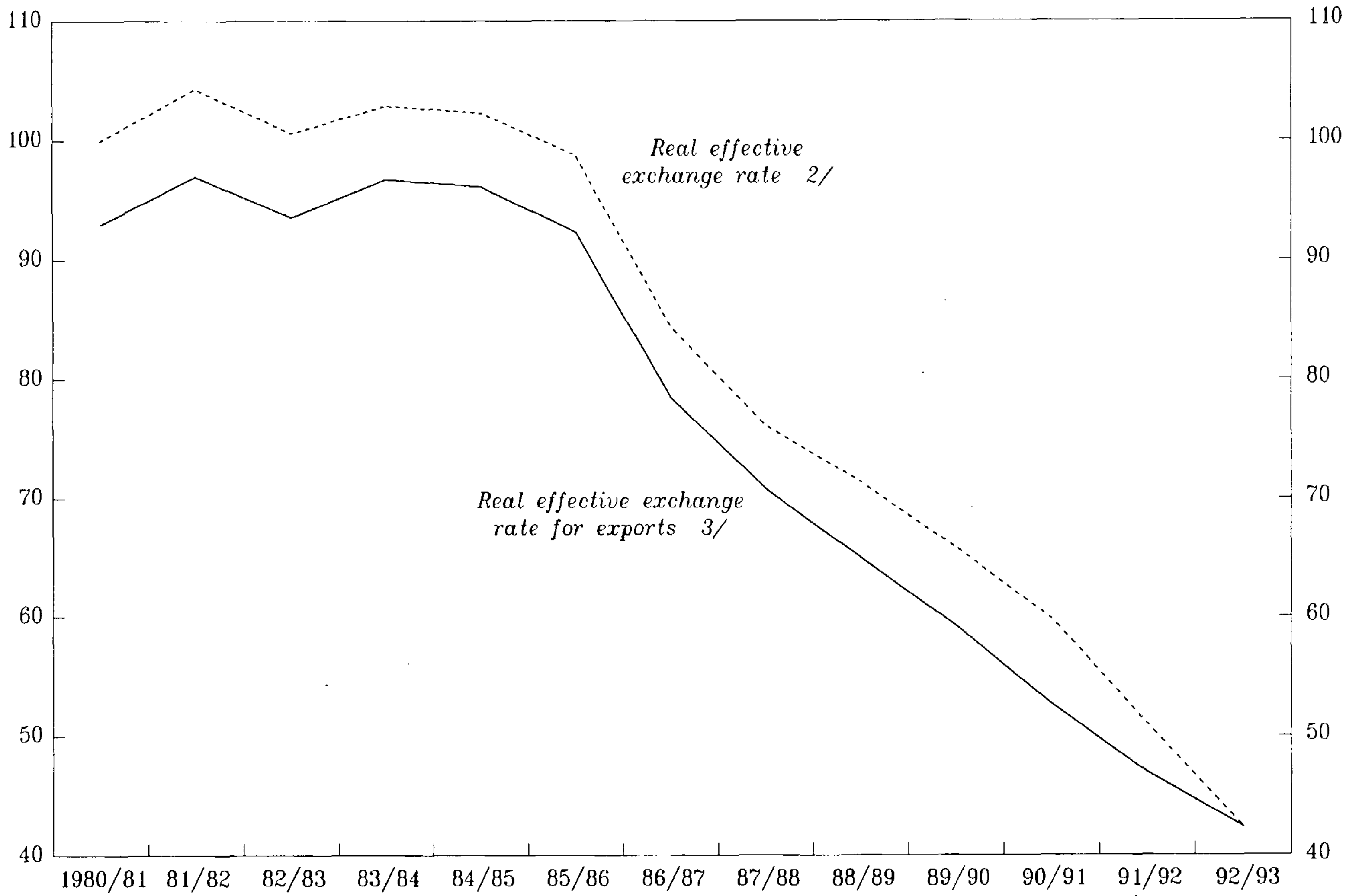
1/ While the economic impact of the EXIM scrip and the dual exchange rate system is similar, the latter is treated as an exchange rate effect in the chart by using a weighted average of the free market (60 percent) and the official market rate (40 percent) rather than as an export incentive.

2/ The average collection rate on capital goods and intermediates declined from 74 percent in 1987/88 to 60 percent in 1990/91.

CHART 19

INDIA

## REAL EFFECTIVE EXCHANGE RATE FOR EXPORTS, 1980/81 - 1992/93 1/




Sources: IMF, Information Notice System; and staff estimates.

1/ Until June 1992.
2/ In June 1992, the average exchange rate is applied to exports (60 percent free market and 40 percent official rate).
3/ Real effective exchange rate adjusted for the estimated impact of the cash compensatory scheme and the premium on REP/EXIM licences.

1 1/2 percent of India's total exports, were the combined market shares of India and Pakistan more than 15 percent, and individual market shares by both countries more than 5 percent. 1/ Moreover, the analysis indicated that more than four fifths of India's exports (by value) were to countries where India's market share was less than 15 percent of the commodity concerned. This would suggest that, with very limited exceptions, India is a price taker for most of its export products.

3. Potential impact of further trade liberalization

Despite the significant trade liberalization introduced in April 1992, India's trade regime remains highly restrictictive, with average tariff levels well above those in competitive countries, and rates ranging up to a maximum of 110 percent for intermediates and 55 percent for capital goods. Moreover, the export of certain commodities (mainly agricultural) remains subject to quantitative restrictions, and the import of most consumer goods is banned. This suggests that the bulk of the impact of trade liberalization on export performance remains to be felt.

International experience indicates that comprehensive trade liberalization is associated with a surge in the growth of exports. Chart 20 shows export volume growth rates for a number of developing countries that have undertaken trade reforms in the past decade. Export volume growth in the five years after the introduction of trade liberalization was on average 6 percentage points higher (at around 9 percent) than in the two years prior to trade liberalization. This finding is broadly consistent with both a recent World Bank study, which found an increase in annual export volume growth from 6 percent (pre-reform) to over 9 percent (post-reform) for 9 countries undertaking trade adjustment, and with an earlier work edited by M. Michaely et al., which demonstrated that "the stronger the liberalization is, the more impressive is the export growth." 2/

The experience of other developing countries also suggests that the response of exports to trade liberalization is influenced by several factors. In particular, movements in the real exchange rate were a major determinant in promoting export performance. Thus, the average real exchange rate for the nine countries analyzed in the World Bank study fell by 44 percent during the adjustment period, a rate already exceeded by the depreciation in the real exchange rate in India during the last six years. 3/

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1/ These five markets were for spices in the United Kingdom, cotton in Hong Kong, leather in Singapore, floor coverings in the United States, and shellfish in the United Kingdom.

2/ "Trade Policy Reforms Under Adjustment Programs", World Bank Operations Evaluation Study, June 1992, p. 88, and Liberalizing Foreign Trade: Lessons and Experience in the Developing World, edited by M. Michaely, P. Papageorgiou, and A. Choksi, Volume 7, chapter 12.

3/ op. cit., page 244.

The process of trade liberalization will in itself generate a substantial boost to export competitiveness. A regional comparison of the present customs tariff structure indicates that the ratio of customs duties to imports in India is significantly higher than in neighboring countries (Chart 21). India is singular in having relatively high tariffs on imported raw materials and capital goods. The Government has stated the objective of reducing tariffs over a three-to-four year period to levels comparable with those in other developing countries. Attainment of this objective, however, will require wider tax reform because of the importance of customs duties as a revenue source (Chart 22). 1/ While the impact of high tariffs on exporters is mitigated by various schemes for duty reduction, these are inevitably imperfect and give rise to distortions. 2/ Given India's high current average tariffs and high tariffs on imported inputs, export competitiveness is likely to improve significantly from the process of tariff reduction. 3/

The relatively high level of India's tariffs and, until recently, the degree of quantitative restrictions on imports, imply the potential for an above-average export response--at least in the longer term--to the dismantling of these barriers. The small size of India's export sector and its relatively low penetration of world export markets underscore the potential for trade flows resulting from India's increased integration into world markets following trade liberalization. Chart 23 illustrates the relatively low ratio of exports to GDP in India--below the level of virtually all comparators. Given its relatively small share of world markets, and the limited number of markets (by commodity and country) where it plays a leading role, India is unlikely to face an early absorption constraint in foreign markets. Equally, India has a relatively diversified export base, with fourth fifths of exports accounted for by manufacturing. This would suggest a potential significant export response to further trade liberalization.

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1/ A substantial reduction in tariff levels would be made possible by the curtailment of widespread exemptions; this would limit the decline in the average collection rate of customs revenues in relation to imports.

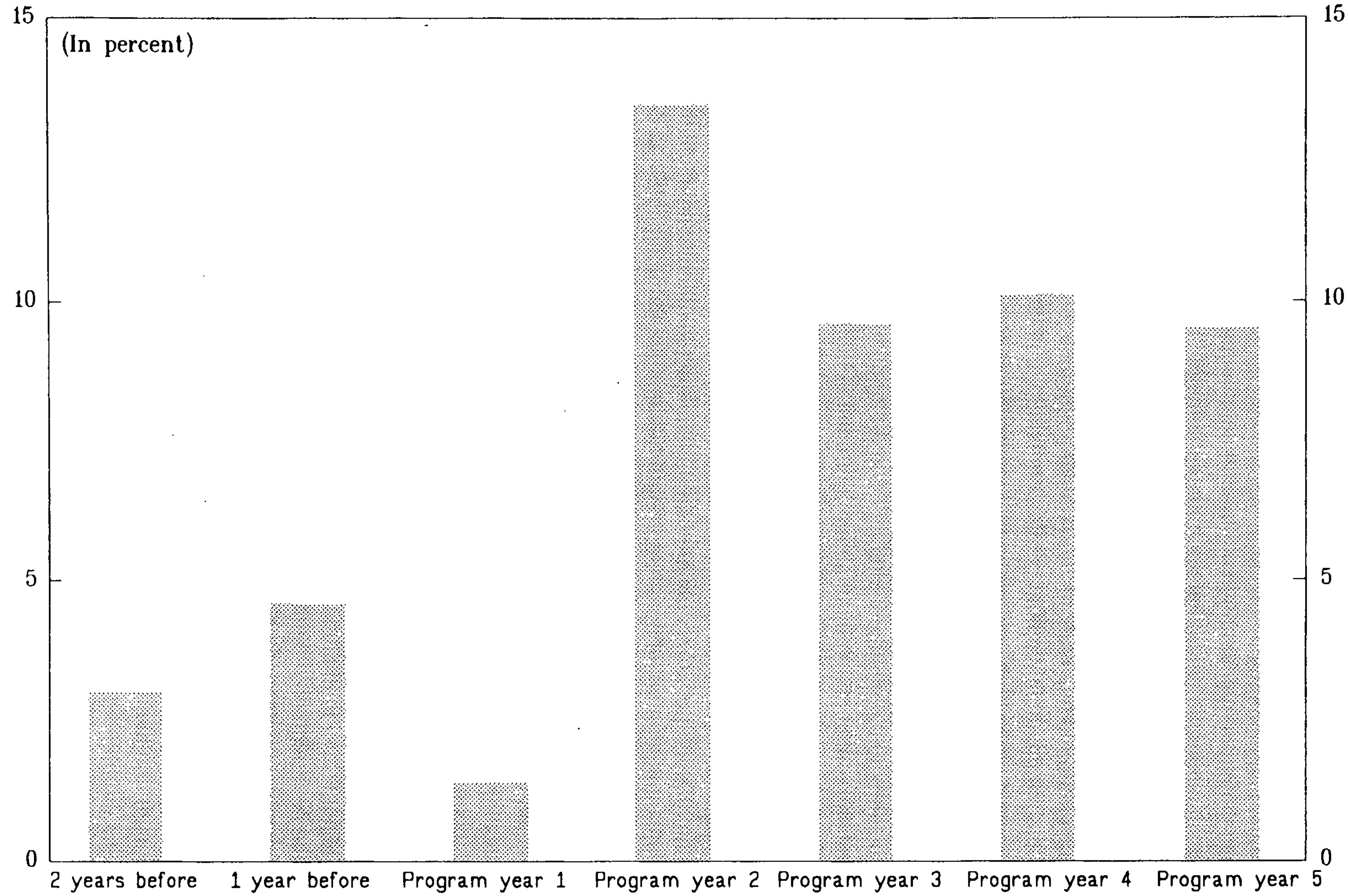
2/ The difficulties of developing a strong export sector while maintaining high tariff levels are emphasized in V. Thomas, J. Nash, and associates, Best Practices in Trade Policy Reform, Chapter 6.

3/ As an illustration of the potential size of this effect, if average rates of tariff collection in relation to imports are reduced from 50 percent (of total customs imports) in 1991/92 to 25 percent in 1995/96, and assuming an average import intensity of export production of 30 percent, this would imply an average gain in export competitiveness of more than 1 percent per annum. This gain would be reduced to the extent that exporters previously received certain inputs at zero rates, but would be increased to the extent that other tradable goods prices are influenced by tariff levels. It would also be influenced by the mix of revenue/expenditure measures used to compensate for lost customs revenues.

CHART 20

INDIA

IMPACT OF TRADE REFORM ON AVERAGE EXPORT GROWTH IN SELECTED DEVELOPING COUNTRIES 1/



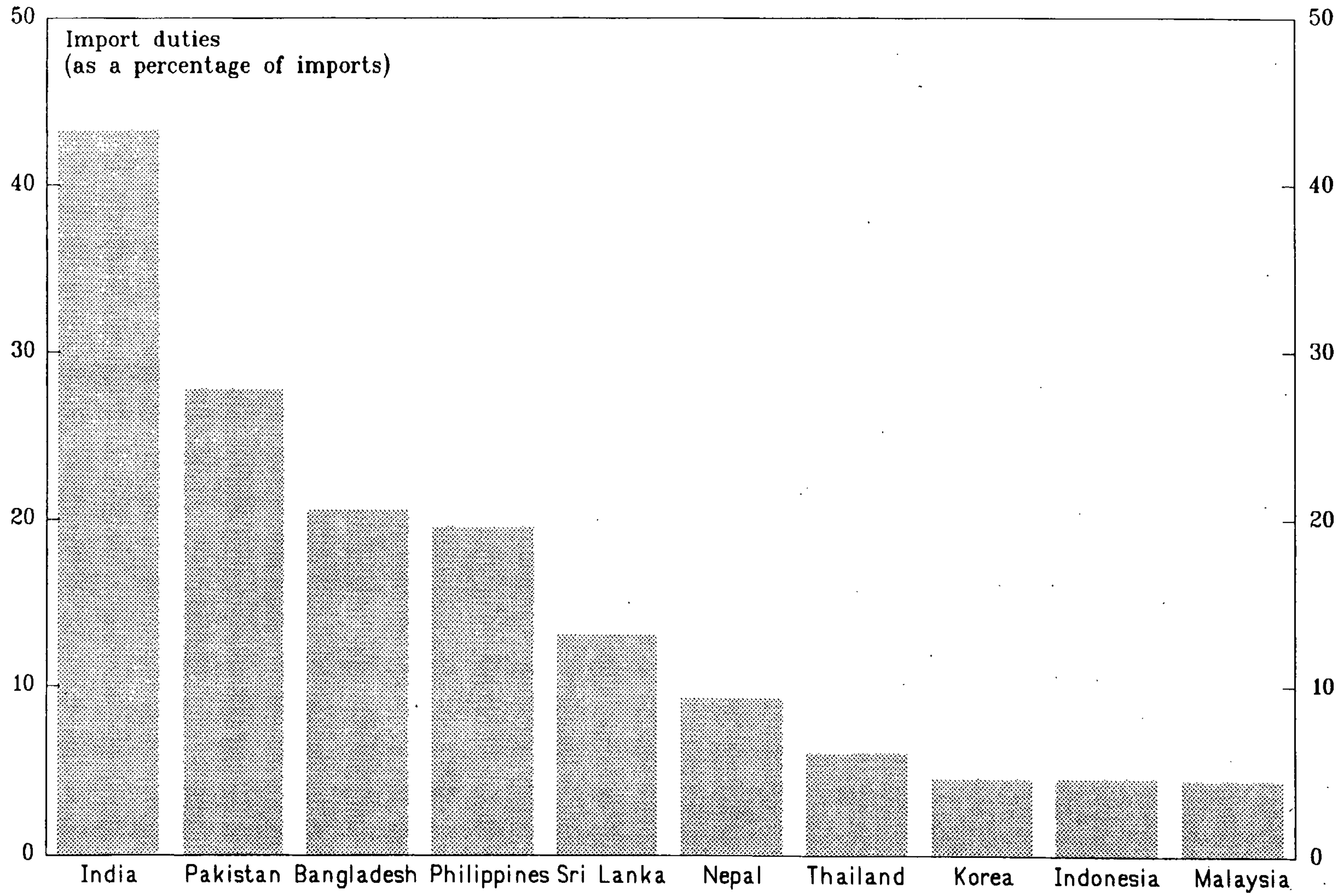

Sources: Staff reports, various countries; and IMF, International Financial Statistics, various issues.

1/ Includes (in chronological order of initiation of trade reform over the period 1980-1990) Thailand, Zaire, Korea, Bangladesh, Bolivia, Columbia, Indonesia, Jamaica, Mexico, Philippines, Brazil, The Gambia, Ghana, Malaysia, Nepal, Argentina, Sri Lanka, Kenya, Pakistan, Venezuela, and Peru.

CHART 21

INDIA

REGIONAL COMPARISON OF CUSTOMS TARIFF STRUCTURE, 1991-92 1/



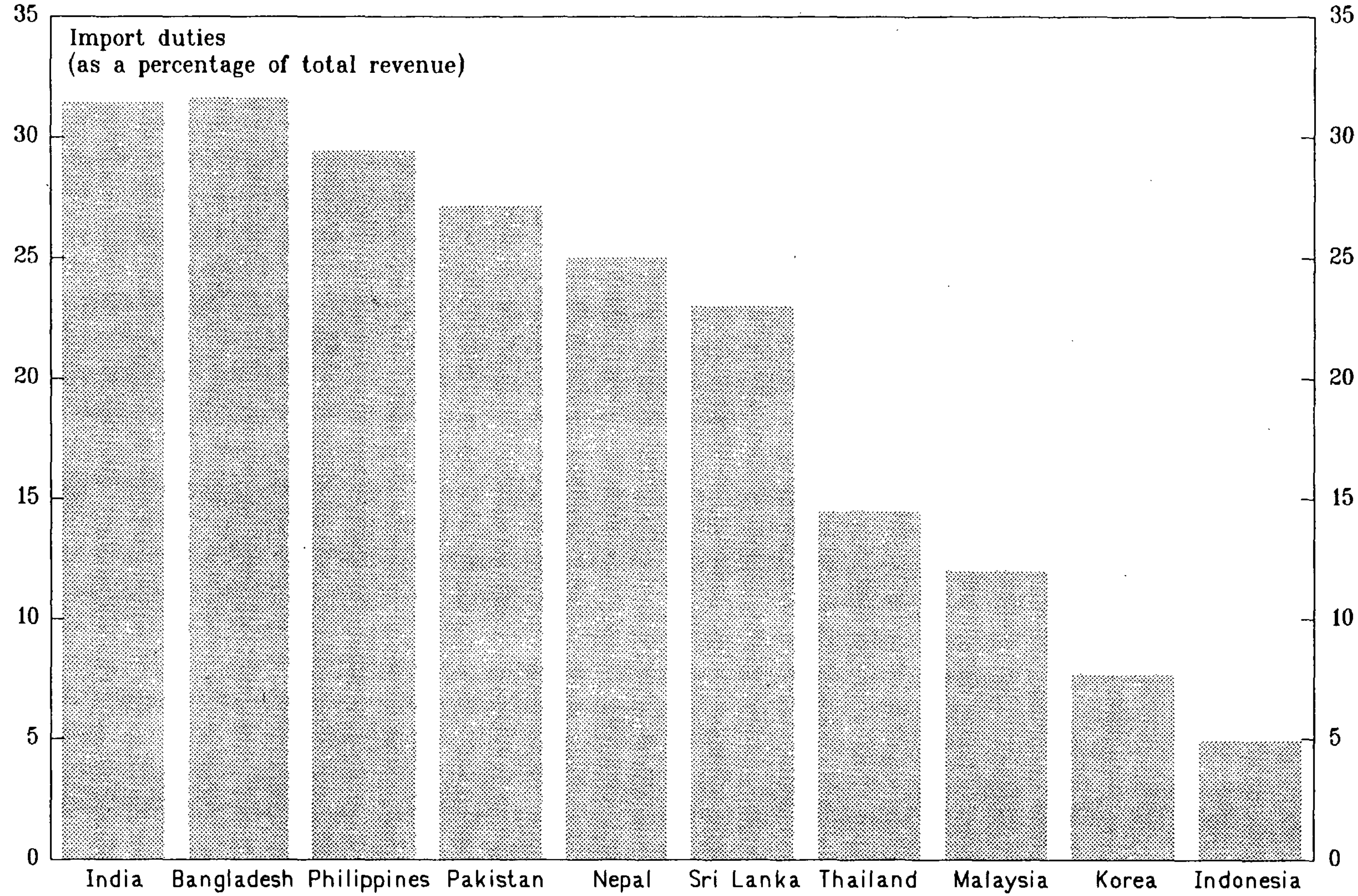

Sources: Staff reports, various countries.

1/ Data refer to most recent projected estimates for 1991/92; data for India, Philippines and Indonesia are actual estimates.

CHART 22

INDIA

REGIONAL COMPARISON OF IMPORTANCE OF CUSTOMS REVENUES, 1991/92 1/



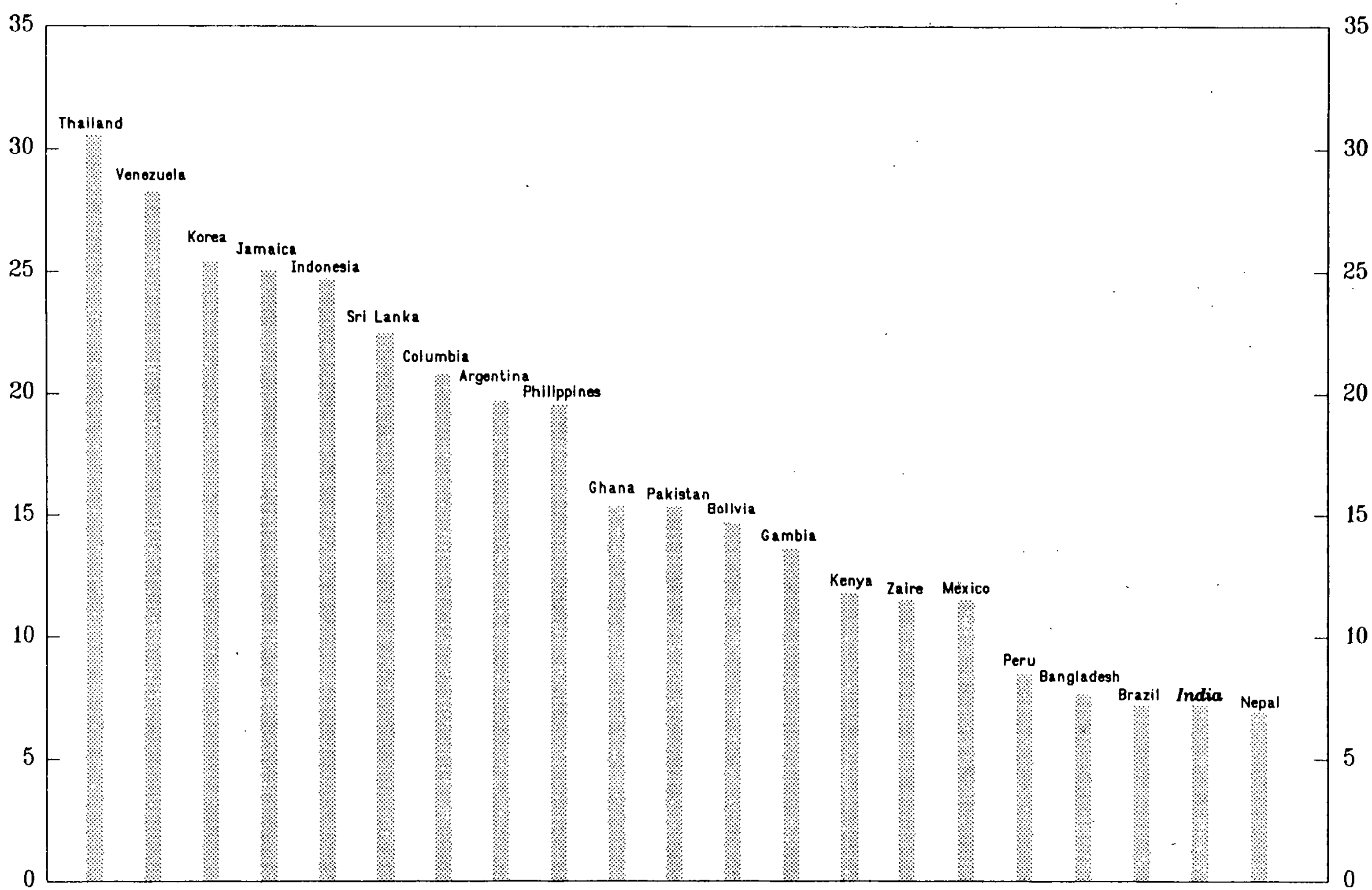

Sources: Staff reports, various countries.

1/ Data for India, Philippines, and Indonesia are actual estimates; the rest are projections for 1991 or 1991/92.

CHART 23

INDIA

EXPORTS TO GDP RATIOS FOR SELECTED DEVELOPING COUNTRIES, 1991/92




Sources: Staff reports, various countries; and IMF, International Financial Statistics, various issues.

Realization of this potential, however, will depend upon a supporting policy framework that promotes macro-balance. Moreover, international experience underlines the importance of the credibility and irreversibility of trade reforms, involving, inter alia, the pre-announcement of key goals such as maximum and average tariff rates. A successful outcome to the Uruguay Round of multilateral trade negotiations would also enhance the prospects for rapid export growth from trade liberalization.

## Role of the Finance and Planning Commissions

This appendix provides additional background information on the role and responsibilities of the Finance and Planning Commissions in India's fiscal system.

### 1. Finance Commission

The Indian Constitution divides the authority to impose and to collect various taxes between the States and the Center. The Center is responsible for non-agricultural income and corporate tax, as well as excise and customs duties. The States are responsible for taxes on agricultural land and income, sales taxes, and taxes on electricity and road transport. The exact modalities of tax sharing arrangements between the Center and the States are established by successive Finance Commissions.

Apart from raising revenues from taxes under their jurisdiction, the States are entitled to a share of taxes collected by the Center relating to personal non-agricultural income tax and central excise duties. The various Finance Commissions have established different sharing ratios over time for these two tax categories, which are generally applicable for a five-year period. 1/ The current arrangement--which lasts until 1995--allocates 85 percent of personal income tax and 45 percent of excise duty revenues to the States. In addition, the Commission determines the amount of grants-in-aid that is given to the States by the Central Government; these grants have accounted for about 20 percent of the States' total revenues since the mid-1980s.

The allocation between individual States of the revenues shared with the Center is done on the basis of sharing formulae. For income tax receipts, the following variables (and associated weights) apply: each State's tax effort (10 percent); the difference between each State's per capita income and that of the State with the highest per capita income multiplied by the 1971 population of the State concerned (45 percent); the population of the State in 1971 (22.5 percent); a composite index of backwardness (11.25 percent); and the inverse of per capita income multiplied by the population of the State in 1971 (11.25 percent). The States' share of revenues from central excise duties are distributed among the different States on the following basis: equal weight is given to the State's domestic product, and to its population.

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1/ The intention in the Constitution was to ensure that there would be no overlapping of tax jurisdiction or power, but this has definitely not been the case. Since the coverage of central excise duties has been extended to almost all manufactured products, it has ended up essentially as a manufacturers' sales tax, with the result that the state sales taxes and the central excise duties have formed part of each other's tax base, producing a cascading effect.

The determination of the relevant formulae for tax sharing and grants-in-aid requires projections relating to current and capital receipts and expenditure for a five-year period for each State; 1/ these projections are usually made on a normative basis by the Finance Commission. In addition to taking into account States' revenues and expenditure, the Finance Commission has in the past also taken into account the indebtedness of States to determine whether the Central Government should provide debt relief by reducing States' loan repayments to the Center. 2/ The Commission also reviews transfers to States under the Calamity Relief Fund before determining grants-in-aid.

2. Planning Commission

The Planning Commission determines the volume of assistance (grants and loans) provided by the Center to the States, for five-year periods, to finance Plan investments undertaken by the States. 3/ Moreover, various central ministries provide resources to the States as part of Plan investments for centrally sponsored schemes; this is essentially tied assistance given by the Center for specific purposes. In recent years, Plan assistance for centrally sponsored schemes has accounted for 25-30 percent of total Plan assistance to the States. About 30 percent of total central Plan assistance is earmarked for special category States. 4/ The remainder is now distributed to the other States according to the Mukherjee formula, which gives a weight of 60 percent to each State's population; 25 percent to the State's per capita income; a combined weight of 7.5 percent to performance measured by tax effort, fiscal management, literacy, and completion of foreign aided projects; and a 7.5 percent weight to a State's special problems. 5/ Though the weight on fiscal management in this formula is only 7.5 percent, this variable has a large impact on the share of incremental resources transferred to the States since 60 percent of the weight is on a State's 1971 population level. 6/ Ninety percent of the assistance to the special category States is in the form of grants, with the remaining

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1/ The Ninth Finance Commission recommended that grants-in-aid be given to States "to help them cover their non-Plan current account deficit," and half of their Plan current account deficit. Twenty-one of the 25 States will obtain grants-in-aid during the 1990/95 period.

2/ The Ninth Finance Commission recommended debt relief amounting to Rs 9.8 billion over the 1990/91-1994/95 period.

3/ In addition, approximately 10-15 percent of total Plan expenditures by States is financed with small savings receipts. The Central Government transfers 75 percent of such savings back to the States.

4/ These 10 States include the "northeastern" States, "newly constituted" States, and "backward" States.

5/ The Gadgil formula established in 1969 assigned a weight of 10 percent to tax effort; fiscal management was not a consideration.

6/ The use of 1971 as the reference year for the population level is intended to reward States which implement effective population control programs.

10 percent in the form of loans. This assistance is not formula based as the States obtain a uniform step increase in the assistance provided during the previous year. For the other States, 70 percent of the assistance is in the form of loans, and 30 percent as grants. Central aid for externally aided projects undertaken by the States is not formula based, so that there is no uniformity in central disbursement under this category.

Table 1. India: Losses of State Public Enterprises, 1986/87-1991/92

(In billions of rupees)

| | 1986/87 | 1987/88 | 1988/89 | 1989/90 | 1990/91 Est. | 1991/92 Budget |
|---|---|---|---|---|---|---|
| Departmental enterprises | | | | | | |
| Total | 8.6 | 10.7 | 15.8 | 17.1 | 18.9 | 18.3 |
| (in percent of GDP) | (0.3) | (0.3) | (0.4) | (0.4) | (0.4) | (0.3) |
| Of which: | | | | | | |
| Losses of irrigation boards | 12.3 | 13.4 | 18.4 | 19.2 | 20.0 | 22.1 |
| (in percent of GDP) | (0.4) | (0.4) | (0.5) | (0.4) | (0.4) | (0.4) |
| Nondepartmental enterprises | | | | | | |
| State electricity boards | 14.6 | 23.3 | 27.6 | 41.0 | 41.7 | 48.6 |
| (in percent of GDP) | (0.5) | (0.7) | (0.7) | (0.9) | (0.8) | (0.8) |
| State road transport corporations | ... | 3.3 | 4.0 | 3.6 | 4.7 | 3.6 |
| (in percent of GDP) | ... | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |

Sources: Economic Survey, 1991/92; India: Country Economic Memorandum, World Bank, May 1991; and staff estimates.

Table 2. India: Classification of Central Public Enterprises by Market Type and Degree of Social Obligation, 1989/90

(Share in percent of all public enterprises)

| Classification | Number of Public Enterprises | Number of Employees | Value Added | Total Gross Assets | Net Worth |
|---|---|---|---|---|---|
| Monopoly market, high social obligation | 27 | 64 | 74 | 73 | 89 |
| Monopoly market, low social obligation | 3 | 2 | 2 | 2 | 1 |
| Sub-total, monopoly markets | 30 | 66 | 76 | 75 | 90 |
| Competitive market, high social obligation | 9 | 5 | 4 | 4 | 2 |
| Competitive market, low social obligation | 61 | 28 | 20 | 21 | 8 |
| Sub-total, competitive markets | 70 | 34 | 24 | 25 | 10 |
| Total for all markets (in percent) | 100 | 100 | 100 | 100 | 100 |
| Total for all markets (in absolute terms) 1/ | 233 | 2,301 | 488 | 1,889 | 476 |
| In percent of GDP | ... | ... | 10.8 | 41.9 | 10.6 |

Sources: Public Enterprises Survey, Government of India, 1990/91; and World Bank staff estimates.

1/ Number of employees in thousands; value added, total gross assets, and net worth in billions of rupees.

Table 3. India: Central Government Public Enterprises--
Summary of Financial Performance, 1980/81-1990/91

| | 1980/81 | 1981/82 | 1982/93 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 | 988/89 | 1989/90 | 1990/91 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of operating enterprises | 168 | 188 | 193 | 201 | 207 | 211 | 214 | 220 | 226 | 233 | 236 |
| | | | | | | (In billions of rupees) | | | | | |
| Investment | 26.5 | 42.6 | 54.4 | 46.9 | 57.4 | 61.8 | 119.6 | 96.5 | 117.0 | 140.0 | 165.0 |
| Capital employed | 182.1 | 219.4 | 265.3 | 298.5 | 363.8 | 429.7 | 518.4 | 556.2 | 676.3 | 847.6 | 1017.0 |
| Net worth | 79.3 | 100.7 | 131.3 | 153.2 | 182.7 | 221.0 | 286.1 | 345.4 | 401.3 | 477.6 | 568.6 |
| Turnover | 286.4 | 364.8 | 419.9 | 472.7 | 547.8 | 623.6 | 690.9 | 812.7 | 931.4 | 1060.7 | 1183.6 |
| Gross margin | 24.0 | 40.1 | 51.8 | 57.7 | 73.9 | 82.7 | 99.0 | 110.8 | 134.4 | 164.1 | 185.1 |
| Less: Depreciation | 9.8 | 13.6 | 17.2 | 22.0 | 27.6 | 29.8 | 33.8 | 41.4 | 48.7 | 57.9 | 71.5 |
| Gross profit | 14.2 | 26.5 | 34.6 | 35.7 | 46.3 | 52.9 | 65.2 | 69.4 | 85.7 | 106.2 | 113.6 |
| Less: Interest | 14.0 | 16.3 | 19.2 | 20.9 | 25.3 | 31.2 | 34.2 | 35.9 | 41.7 | 53.3 | 75.4 |
| Net profit before tax | 0.2 | 10.2 | 15.4 | 14.8 | 21.0 | 21.7 | 31.0 | 33.5 | 44.1 | 52.9 | 38.2 |
| Corporate tax | 2.2 | 5.8 | 9.3 | 12.4 | 11.9 | 10.0 | 13.3 | 13.2 | 14.1 | 15.0 | 14.5 |
| Net profit after tax | -2.0 | 4.4 | 6.1 | 2.4 | 9.1 | 11.7 | 17.7 | 20.3 | 29.9 | 37.9 | 23.7 |
| Dividends | 0.8 | 1.1 | 1.2 | 1.3 | 1.8 | 1.9 | 3.0 | 3.2 | 3.5 | 3.2 | 3.7 |
| Memorandum items (in percent): | | | | | | | | | | | |
| Gross profit/capital employed | 7.8 | 12.1 | 13.0 | 12.0 | 12.7 | 12.3 | 12.6 | 12.5 | 12.7 | 12.5 | 11.2 |
| Net profit before tax/capital employed | 0.1 | 4.6 | 5.8 | 5.0 | 5.8 | 5.1 | 6.0 | 6.0 | 6.5 | 6.2 | 3.8 |
| Net profit after tax/capital employed | -1.1 | 2.0 | 2.3 | 0.8 | 2.5 | 2.7 | 3.4 | 3.6 | 4.4 | 4.5 | 2.3 |

Source: Government of India, Public Enterprises Survey, various issues.

Table 4. India: Comparative Profitability Performance, Private and Public Sectors, 1989/90

(In percent)

| Ratio | Private Sector All Industries | Public Sector All Industries |
|---|---|---|
| Profits before interest and tax/ gross sales | 9.3 | 9.1 |
| Profits before interest and tax/ total net assets | 10.8 | 6.5 |
| Net profits after tax/net worth | 12.0 | 7.1 |
| Dividends/share capital | 15.4 | 0.9 |

Sources: Centre for Monitoring Indian Economy, Economic Intelligence Service; Trends in Company Finance: Industry Aggregates, 1986/87 to 1990/91, Bombay, March 1992, pp. xii, xiii.

Table 5. India: Distribution of Central Government Public Enterprise
Net Profit (after tax) and Loss, 1980/81-1990/91

(In billions of rupees)

| | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 | 1988/89 | 1989/90 | 1990/91 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Enterprises producing goods | -1.8 | 3.8 | 5.9 | 2.4 | 8.5 | 11.0 | 15.6 | 17.5 | 25.5 | 33.9 | 20.7 |
| Steel | -0.3 | -- | -1.8 | -2.4 | -0.8 | 1.0 | -0.3 | -0.5 | 1.9 | 0.5 | -3.5 |
| Minerals and metals | -0.2 | -0.8 | -1.0 | -0.7 | 0.1 | -0.6 | -0.6 | -1.0 | 0.4 | 3.1 | 2.6 |
| Coal | -0.3 | 0.4 | -0.1 | -2.4 | -0.8 | -4.1 | -2.7 | -1.5 | 0.6 | 1.7 | -0.4 |
| Thermal and hydroelectric power | -- | -- | 0.1 | 0.4 | 1.1 | 2.0 | 2.3 | 3.4 | 4.6 | 6.4 | 8.1 |
| Petroleum | 1.6 | 5.9 | 9.3 | 10.1 | 11.2 | 16.5 | 21.4 | 21.7 | 25.6 | 29.0 | 23.0 |
| Chemicals and fertilizers | -1.5 | -0.7 | -0.1 | -0.7 | 0.1 | -1.4 | -1.5 | -1.1 | -2.1 | -2.5 | -3.8 |
| Heavy engineering | -0.8 | -0.3 | -0.5 | -0.3 | 0.1 | -- | 0.1 | 0.3 | 0.8 | 0.5 | -1.3 |
| Light engineering | 0.2 | 0.4 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.6 | 0.6 |
| Transport equipment | -0.2 | -- | -0.1 | 0.1 | -0.2 | -0.6 | -0.5 | -0.7 | -0.7 | -0.9 | -0.5 |
| Consumer goods | -0.1 | -0.2 | -0.4 | -0.7 | -0.8 | -1.1 | -1.4 | -1.2 | -2.6 | -2.3 | -1.9 |
| Textiles | -0.2 | -0.9 | -0.1 | -1.6 | -2.0 | -1.2 | -1.9 | -2.3 | -3.2 | -2.1 | -2.1 |
| Agro-based products and others | -- | -- | -- | 0.1 | -- | -- | 0.2 | -0.1 | -0.2 | -0.1 | -0.1 |
| Enterprises rendering services | -0.3 | 0.6 | 0.2 | -- | 0.6 | 0.7 | 2.1 | 2.8 | 4.4 | 4.0 | 2.9 |
| Trading and marketing | 0.3 | 0.5 | 0.4 | 0.3 | 0.6 | 0.5 | 0.4 | 0.8 | 0.9 | 1.3 | 0.3 |
| Transportation | -0.8 | -0.1 | -0.5 | -0.5 | -0.4 | -0.3 | -0.6 | -0.4 | 0.9 | 0.9 | -0.5 |
| Construction | -0.4 | -0.1 | -0.1 | 0.1 | 0.1 | 0.1 | -0.3 | -0.3 | -1.1 | -1.1 | -1.1 |
| Other | 0.6 | 0.3 | 0.4 | 0.1 | 0.3 | 0.4 | 2.6 | 2.7 | 3.7 | 2.9 | 4.2 |
| Total net profits | -2.1 | 4.4 | 6.1 | 2.4 | 9.1 | 11.7 | 17.7 | 20.3 | 29.9 | 37.9 | 23.6 |
| Net profit (after tax) of profit-making enterprises | 5.6 | 12.9 | 15.9 | 17.8 | 20.2 | 28.5 | 34.8 | 37.8 | 49.2 | 57.5 | 54.3 |
| Net loss of loss-making enterprises | 7.7 | 8.5 | 9.8 | 15.4 | 11.1 | 16.8 | 17.1 | 17.5 | 19.3 | 19.6 | 30.7 |
| Number of profit-making enterprises | 94 | 104 | 109 | 108 | 113 | 119 | 108 | 114 | 117 | 131 | 124 |
| Number of loss-making enterprises | 74 | 83 | 82 | 92 | 92 | 90 | 100 | 103 | 106 | 98 | 109 |

Source: Government of India, Public Enterprises Survey, various issues.

Table 6. India: Top Profit- and Top Loss-Making Enterprises in 1990/91

| Top Ten Profit-Making Enterprises | Pre-Tax Profits: Billions of Rupees | Pre-Tax Profits: Percent Share of Total Profits |
|---|---|---|
| 1. Oil and Natural Gas Commission | 11.0 | 16.0 |
| 2. Indian Oil Corporation Ltd. | 9.1 | 13.2 |
| 3. National Thermal Power Corp., Ltd. | 7.0 | 10.2 |
| 4. Mahanagar Telephone Nigam Ltd. | 4.1 | 5.9 |
| 5. Steel Authority of India Ltd. | 2.5 | 3.6 |
| 6. Bharat Petroleum Corp. Ltd. | 2.2 | 3.1 |
| 7. Hindustan Petroleum Corp. Ltd. | 2.0 | 2.9 |
| 8. Indian Railway Finance Corp. Ltd. | 1.1 | 1.7 |
| 9. Shipping Corporation of India | 1.0 | 1.4 |
| 10. Neyveli Lignite Corp. | 1.0 | 1.4 |
| Total | 40.9 | 59.4 |
| Total pre-tax profits of all profit-making enterprises | 68.8 | 100.0 |
| (in percent of 1990/91 GDP) | | 1.3 |

| Top Ten Loss-Making Enterprises | Net Loss: Billions of Rupees | Net Loss: Percent Share of Total Losses |
|---|---|---|
| 1. Rashtriya Ispat Nigam Ltd. (Steel) | 4.8 | 15.6 |
| 2. Hindustan Fertilizer Corp. Ltd. | 2.3 | 7.6 |
| 3. Delhi Transport Corporation | 2.0 | 6.5 |
| 4. Fertilizer Corporation of India Ltd. | 1.7 | 5.5 |
| 5. Export Credit and Guarantee Corp. | 1.4 | 4.6 |
| 6. Indian Iron and Steel Co. Ltd. | 1.3 | 4.4 |
| 7. Heavy Engineering Corporation | 1.0 | 3.3 |
| 8. Bharat Coking Coal Ltd. | 1.0 | 3.1 |
| 9. Western Coalfields Ltd. | 1.0 | 3.1 |
| 10. Indian Drugs and Pharmaceuticals Ltd. | 0.9 | 2.9 |
| Total | 17.3 | 56.4 |
| Total loss by all loss-making enterprises | 30.6 | 100.0 |
| (in percent of 1990/91 GDP) | | 0.6 |

Source: Public Enterprises Survey, Government of India, 1990/91.

Table 7. India: Nonprofit Indicators of Public Enterprise Performance, 1980/81-1990/91

(In billions of rupees, unless otherwise specified)

| | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 | 1988/89 | 1989/90 | 1990/91 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross internal resource generation 1/ | 12.3 | 22.6 | 27.5 | 32.8 | 42.5 | 50.7 | 60.1 | 69.1 | 89.1 | 107.7 | 113.7 |
| In percent of investment | 46.4 | 53.1 | 50.6 | 69.9 | 74.0 | 82.0 | 50.3 | 71.6 | 76.2 | 76.9 | 68.9 |
| Net internal resource generation 2/ | 11.0 | 19.2 | 22.5 | 28.3 | 36.2 | 42.6 | 51.3 | 60.4 | 80.1 | 98.5 | 104.1 |
| In percent of investment | 41.5 | 45.1 | 41.4 | 60.3 | 63.1 | 68.9 | 42.9 | 62.6 | 68.5 | 70.4 | 63.1 |
| Contribution to central government revenue 3/ | 33.0 | 45.7 | 55.4 | 65.5 | 76.1 | 90.6 | 120.8 | 151.3 | 163.5 | 182.6 | 194.7 |
| In percent of central government revenue | 26.5 | 30.0 | 30.6 | 30.1 | 30.7 | 30.0 | 33.3 | 38.4 | 36.8 | 35.4 | 34.1 |
| Employment (in millions) | 1.8 | 1.9 | 2.0 | 2.1 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Export earnings | 22.2 | 27.6 | 47.5 | 55.3 | 58.3 | 38.2 | 39.4 | 41.8 | 48.9 | 63.7 | 71.0 |
| In percent of turnover | 7.8 | 7.6 | 11.3 | 11.7 | 10.6 | 6.1 | 5.7 | 5.1 | 5.3 | 6.0 | 6.0 |

Source: Government of India, Public Enterprises Survey, various issues.

1/ Net profit (after tax) minus dividends plus depreciation allowances and deferred current expenditure written off.
2/ Gross internal resource generation less loan repayments.
3/ Corporate tax, customs and other duties, and dividends.

Table 8. India: Inflation Tax in Selected Countries, 1986/90 1/

(In percent)

| | Inflation Tax/GDP | Inflation Tax/Total Expenditure | Average Inflation | Reserve Money/GDP | Share of Agri-culture in GDP | Share of Urban Population |
|---|---|---|---|---|---|---|
| India | 1.3 | 5.8 | 8.8 | 16.2 | 30 | 27 |
| Pakistan | 1.2 | 5.0 | 8.5 | 14.5 | 27 | 32 |
| Sri Lanka | 1.3 | 3.9 | 13.8 | 10.7 | 26 | 21 |
| Indonesia | 0.5 | 2.3 2/ | 7.9 | 6.8 | 23 | 30 |
| Thailand | 0.4 | 2.2 | 4.2 | 9.0 | 15 | 22 |
| Malaysia | 0.3 | 0.8 2/ | 2.2 | 14.2 | 12 | 42 |
| Philippines | 0.8 | 4.4 | 9.6 | 9.3 | 24 | 42 |
| Mexico | 2.7 | 10.4 | 73.2 | 6.5 | 9 | 72 |

Sources: IMF, International Financial Statistics; World Bank, World Development Report, 1991; and staff estimates.

1/ Period average; data for India and Pakistan cover the fiscal years from April 1986-March 1991 and July 1986-June 1991, respectively.
2/ Relates to the 1986-89 period.

Table 9. India: Nondefense Trade with the Former Soviet Union
1986/87-1991/92 1/

| | 1986/87 | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 |
|---|---|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | | | |
| Exports to Soviet Union | | | | | | |
| Balance of payments basis | 1,685 | 1,610 | 1,936 | ... | ... | ... |
| Customs basis | 1,461 | 1,514 | 1,802 | 2,678 | 2,934 | 1,618 |
| Imports from Soviet Union | | | | | | |
| Balance of payments basis | 974 | 1,434 | 1,694 | ... | ... | ... |
| Customs basis | 787 | 1,240 | 1,357 | 1,223 | 1,422 | 726 |
| Trade balance with Soviet Union | | | | | | |
| Balance of payments basis | 711 | 176 | 242 | ... | ... | ... |
| Customs basis | 674 | 274 | 445 | 1,455 | 1,512 | 892 |
| | (In percent; on a customs basis) | | | | | |
| Share of trade with Soviet Union in total | | | | | | |
| Exports | 15.0 | 12.5 | 12.9 | 16.1 | 16.2 | 9.1 |
| Imports | 5.0 | 7.2 | 7.0 | 5.8 | 5.9 | 3.7 |
| Exports plus imports | 8.8 | 9.4 | 9.4 | 10.3 | 10.3 | 6.3 |
| | (Annual changes in percent) | | | | | |
| Exports to Soviet Union | -7.7 | 3.6 | 19.1 | 48.6 | 9.5 | -44.9 |
| Imports from Soviet Union | -42.4 | 57.6 | 9.4 | -9.9 | 16.2 | -48.9 |
| Total exports | 9.4 | 24.1 | 15.6 | 18.9 | 9.1 | -1.4 |
| Of which: Contribution of Soviet Union | -1.4 | 0.5 | 2.4 | 6.3 | 1.5 | -7.3 |
| Total imports | -2.2 | 9.1 | 13.7 | 9.0 | 13.2 | -19.0 |
| Of which: Contribution of Soviet Union | -3.6 | 2.9 | -2.2 | 1.8 | 0.9 | -2.9 |

Source: Data provided by the Indian authorities.

1/ All rupee-ruble conversions are at the protocol exchange rate, and all U.S. dollar-rupee conversions are at the official exchange rate.

Table 10. India: Composition of Nondefense Trade with the Former Soviet Union, 1986/87-1991/92 1/

| | 1986/87 | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 |
|---|---|---|---|---|---|---|
| | (In millions of U.S. dollars) | | | | | |
| Exports (customs) | 1,461 | 1,514 | 1,802 | 2,678 | 2,934 | 1,618 |
| Primary commodities | ... | 505 | 455 | 776 | 844 | 307 |
| Tea | 201 | 194 | 174 | 328 | 333 | 202 |
| Coffee | 86 | 79 | 89 | 103 | 81 | 44 |
| Rice | 53 | 91 | 64 | 60 | 82 | 10 |
| Tobacco | 54 | 29 | 26 | 20 | 59 | 14 |
| Spices | 45 | 85 | 36 | 61 | 37 | 18 |
| Cashew kernels | 24 | 19 | 12 | 49 | 105 | 14 |
| Oil meals | 11 | 8 | 55 | 155 | 147 | 6 |
| Other | ... | 12 | 22 | 55 | 24 | 25 |
| Manufactures | ... | 1,009 | 1,347 | 1,903 | 2,090 | 1,311 |
| Leather & products | 136 | 156 | 213 | 179 | 173 | 158 |
| Chemicals | 137 | 195 | 299 | 386 | 578 | 421 |
| Engineering goods | 223 | 264 | 410 | 564 | 538 | 239 |
| Textiles & garments | 244 | 221 | 254 | 254 | 340 | 147 |
| Jute goods | 87 | 77 | 75 | 101 | 84 | 45 |
| Other | ... | 95 | 95 | 419 | 376 | 300 |
| Imports (customs) | 787 | 1,240 | 1,357 | 1,223 | 1,422 | 726 |
| Oil and oil products | 653 | 965 | 890 | 984 | 1,103 | 506 |
| Other goods | 134 | 275 | 467 | 239 | 319 | 220 |
| Fertilizer | ... | 22 | 17 | 45 | 54 | 130 |
| Chemicals | ... | 22 | 44 | 19 | 23 | 21 |
| Nonferrous metals | ... | 38 | 78 | 85 | 63 | 2 |
| Newsprint | ... | 43 | 41 | 38 | 48 | 27 |
| Other | ... | 150 | 287 | 52 | 131 | 40 |
| | (Percentage share in total) | | | | | |
| Exports (customs) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Primary commodities | ... | 33.4 | 25.3 | 29.0 | 28.8 | 19.0 |
| Tea | 13.7 | 12.8 | 9.6 | 12.2 | 11.3 | 12.5 |
| Coffee | 5.9 | 5.2 | 4.9 | 3.8 | 2.8 | 2.7 |
| Rice | 3.6 | 6.0 | 3.5 | 2.2 | 2.8 | 0.6 |
| Tobacco | 3.7 | 1.9 | 1.5 | 0.8 | 2.0 | 0.9 |
| Spices | 3.1 | 5.6 | 2.0 | 2.3 | 1.2 | 1.1 |
| Cashew kernels | 1.7 | 1.3 | 0.6 | 1.8 | 3.6 | 0.9 |
| Oil meals | 0.8 | 0.6 | 3.0 | 5.8 | 5.0 | 0.4 |
| Other | ... | 0.8 | 1.2 | 2.1 | 0.8 | 1.6 |
| Manufactures | ... | 66.6 | 74.7 | 71.0 | 71.2 | 81.0 |
| Leather & products | 9.3 | 10.3 | 11.8 | 6.7 | 5.9 | 9.8 |
| Chemicals | 9.4 | 12.9 | 16.6 | 14.4 | 19.7 | 26.0 |
| Engineering goods | 15.3 | 17.4 | 22.7 | 21.1 | 18.3 | 14.8 |
| Textiles & garments | 16.7 | 14.6 | 14.1 | 9.5 | 11.6 | 9.1 |
| Jute goods | 5.9 | 5.1 | 4.2 | 3.8 | 2.9 | 2.8 |
| Other | ... | 6.3 | 5.3 | 15.6 | 12.8 | 18.6 |
| Imports (customs) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Oil and oil products | 83.0 | 77.8 | 65.6 | 80.5 | 77.6 | 69.7 |
| Other goods | 17.0 | 22.2 | 34.4 | 19.5 | 22.4 | 30.3 |
| Fertilizer | ... | 1.8 | 1.2 | 3.7 | 3.8 | 17.9 |
| Chemicals | ... | 1.7 | 3.2 | 1.5 | 1.6 | 2.9 |
| Nonferrous metals | ... | 3.0 | 5.8 | 6.9 | 4.4 | 0.3 |
| Newsprint | ... | 3.5 | 3.1 | 3.1 | 3.4 | 3.7 |
| Other | ... | 12.1 | 21.2 | 4.3 | 9.2 | 5.6 |

Source: Data provided by the Indian authorities.

1/ All rupee-ruble conversions are at the protocol exchange rate, and all U.S. dollar-rupee conversions are at the official exchange rate.

Table 11. India: Capital Flows with the Former Soviet Union, 1986/87-1992/93

(In millions of U.S. dollars, unless otherwise indicated)

| | 1986/87 | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 | 1992/93 | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Apr-Sep 1992 | Total 1/ |
| Nondefense debt | | | | | | | | |
| Outstanding stock (end-period) | 495 | 854 | 928 | 1,001 | 1,173 | 1,154 | ... | 1,077 |
| Disbursements | 137 | 170 | 143 | 131 | 165 | 56 | ... | -- |
| Debt service | 38 | 48 | 64 | 70 | 89 | 100 | ... | 109 |
| Amortization | 24 | 30 | 41 | 46 | 59 | 68 | ... | 77 |
| Interest | 14 | 18 | 23 | 24 | 30 | 31 | ... | 32 |
| Defense related debt | | | | | | | | |
| Outstanding stock (end-period) | 8,096 | 10,890 | 11,766 | 13,378 | 13,836 | 12,626 | ... | ... |
| Debt service | ... | ... | ... | ... | ... | ... | ... | 1,383 |
| Nonconvertible rupee budget of Ministry of Defense 2/ | 1,369 | 1,542 | 1,520 | 1,173 | 1,461 | 1,305 | ... | 1,584 |
| India's claims on Soviet Union | | | | | | | | |
| Technical credit | | | | | | | | |
| Outstanding stock (end-period) | 265 | 63 | -- | 431 | 880 | 417 | 245 | ... |
| Flow during year | 267 | -200 | -57 | 440 | 514 | -235 | ... | ... |
| RBI credit to VEB | | | | | | | | |
| Outstanding stock (end-period) | -- | -- | -- | -- | -- | 421 | -- | ... |
| Flow during year | -- | -- | -- | -- | -- | 445 | ... | ... |
| India's net liabilities | 8,327 | 11,681 | 12,694 | 13,949 | 14,129 | 12,942 | ... | ... |
| Debt | 8,591 | 11,744 | 12,694 | 14,380 | 15,010 | 13,780 | ... | ... |
| Nondefense | 495 | 854 | 928 | 1,001 | 1,173 | 1,154 | ... | ... |
| Defense related | 8,096 | 10,890 | 11,766 | 13,378 | 13,836 | 12,626 | ... | ... |
| Credits | 265 | 63 | -- | 431 | 880 | 838 | ... | ... |
| Technical credit | 265 | 63 | -- | 431 | 880 | 417 | ... | ... |
| RBI credit to VEB | -- | -- | -- | -- | -- | 421 | ... | ... |
| Memorandum items: | | | | | | | | |
| Protocol exchange rate (Rs/ruble) | | | | | | | | |
| Average | 13.64 | 15.18 | 17.03 | 18.99 | 21.94 | 29.36 | 31.79 | ... |
| End-period | 14.79 | 15.86 | 18.11 | 19.92 | 23.40 | 31.79 | 31.79 | ... |
| Rs/US$ exchange rate | | | | | | | | |
| Average | 12.79 | 12.97 | 14.48 | 16.66 | 17.95 | 24.52 | 25.89 | ... |
| End-period | 12.93 | 12.95 | 15.28 | 17.03 | 18.81 | 25.89 | 25.89 | ... |
| Implied ruble/US$ exchange rate | | | | | | | | |
| Average | 0.94 | 0.85 | 0.85 | 0.88 | 0.82 | 0.84 | 0.81 | ... |
| End-period | 0.87 | 0.82 | 0.84 | 0.86 | 0.80 | 0.81 | 0.81 | ... |

Source: Data provided by the Indian authorities.

1/ Assuming end-1991/92 exchange rates for the ruble and the U. S. dollar. Data are based on 1992/93 budget.
2/ Includes cash defense imports and debt service on military debt by the Ministry of Defense. Excludes transactions by defense-related public enterprises.

Table 12. India: Expansion in OGL List, 1978/79-1988/91

| Year | Number of Items under OGL<br>(1) | Number of Capital Goods Items under OGL<br>(2) | (2) as percent of (1)<br>(3) | Change in (2) as percent of (1)<br>(4) |
|---|---|---|---|---|
| 1978/79 | 534 | 252 | 47.1 | ... |
| 1979/80 | 702 | 385 | 54.8 | 79.2 |
| 1980/81 | 776 | 428 | 55.1 | 58.1 |
| 1983/84 | 959 | 559 | 58.2 | 71.6 |
| 1984/85 | 1,055 | 653 | 61.8 | 97.9 |
| 1985/88 | 1,185 | 850 | 71.7 | 151.5 |
| 1988/91 | 1,274 | 944 | 74.0 | 106.0 |

Source: Data provided by the Ministry of Commerce, Government of India.

Table 13. India: Composition of Export Growth, 1980/81-1990/91

(Annual average in millions of U.S. dollars)

| | 1980/81-1985/86 (1) | 1986/87-1990/91 (2) | Change | Average Growth Rate (2)/(1) | Contribution to Growth |
|---|---|---|---|---|---|
| | | | | (In percent) | |
| Manufactured exports | 5,296 | 10,837 | 5,542 | 204.6 | 97.5 |
| Consumption goods | 3,408 | 6,514 | 3,106 | 191.1 | 54.6 |
| Leather | 502 | 1,046 | 544 | 208.4 | 9.6 |
| Gems (gross) | 1,097 | 2,551 | 1,454 | 232.5 | 25.6 |
| Garments | 757 | 1,612 | 855 | 212.9 | 15.0 |
| Textiles | 1,052 | 1,305 | 253 | 124.0 | 4.4 |
| Investment goods 1/ | 860 | 1,518 | 658 | 176.5 | 11.6 |
| Intermediate goods | 1,028 | 2,805 | 1,777 | 272.9 | 31.3 |
| Chemicals | 382 | 1,138 | 756 | 297.9 | 13.3 |
| Petroleum products | 238 | 421 | 183 | 176.9 | 3.2 |
| Others 2/ | 407 | 1,247 | 839 | 306.4 | 14.8 |
| Primary exports | 3,144 | 3,287 | 143 | 104.5 | 2.5 |
| Fish | 340 | 442 | 102 | 130.0 | 1.8 |
| Rice | 210 | 227 | 17 | 108.1 | -- |
| Cashews | 165 | 231 | 66 | 140.0 | 1.2 |
| Coffee | 185 | 195 | 9 | 105.4 | 0.2 |
| Tea | 497 | 493 | -4 | 99.2 | -- |
| Spices | 145 | 181 | 37 | 124.8 | 0.7 |
| Iron ore | 408 | 490 | 83 | 120.1 | 1.5 |
| Other primary | 1,195 | 1,028 | -167 | 86.0 | -2.9 |
| Total exports 3/ | 8,440 | 14,124 | 5,685 | 167.3 | 100.0 |
| Memorandum item: | | | | | |
| Gems (net) 4/ | 290 | 688 | 398 | 237.2 | ... |

Source: India: Stabilizing and Reforming the Economy, World Bank, 1992.

1/ Refers to engineering goods.
2/ Including unclassified exports.
3/ Total exports, f.o.b., net of crude oil.
4/ Exports less imports of uncut gems and jewelry.

Table 14. India: Domestic and Export Profitability, 1978/79-1986/87

(Gross profit on domestic and export sales; in percent)

| | 1978/79 | 1979/80 | 1980/81 | 1985/86 | 1986/87 |
|---|---|---|---|---|---|
| On total costs | | | | | |
| Domestic profitability | 12.0 | 12.4 | 13.9 | 16.1 | 13.2 |
| Export profitability (without incentives) | -15.4 | -12.7 | -11.2 | -27.3 | -17.0 |
| Export profitability (with incentives) | 4.0 | 5.4 | 4.9 | -8.8 | -0.2 |
| On variable costs | | | | | |
| Domestic profitability | ... | ... | ... | 27.9 | 25.1 |
| Export profitability (without incentives) | -5.2 | -2.8 | -1.6 | -11.5 | -2.2 |
| Export profitability (with incentives) | 14.2 | 15.2 | 13.9 | 4.6 | 12.4 |

Source: Strategy for Trade Reform in India, World Bank, 1990.

Table 15. India: GDP at Market Prices by Expenditure Components, 1987/88-1991/92

(In billions of rupees)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 Est. | 1991/92 Est. |
|---|---|---|---|---|---|
| | | | (At current prices) | | |
| Private consumption | 2,225.5 | 2,599.8 | 2,896.4 | 3,399.9 | 4,044.8 |
| Government consumption | 408.4 | 473.5 | 543.2 | 633.2 | 708.9 |
| Gross fixed capital formation | 721.9 | 830.9 | 964.1 | 1,168.7 | 1,516.5 |
| Construction | 347.9 | 393.6 | 447.9 | 510.7 | 662.7 |
| Machinery and equipment | 374.0 | 437.3 | 516.2 | 658.0 | 853.8 |
| Change in stocks | 25.6 | 99.9 | 77.6 | 102.2 | -10.0 |
| Exports of goods and services | 202.8 | 259.1 | 346.3 | 331.8 | 446.1 |
| Imports of goods and services | 252.6 | 320.1 | 403.0 | 470.8 | 515.2 |
| GDP at market prices 1/ | 3,326.2 | 3,949.9 | 4,427.7 | 5,295.4 | 6,189.8 |
| | | | (At constant 1980/81 prices) | | |
| Private consumption | 1,351.3 | 1,459.2 | 1,518.8 | 1,574.9 | 1,683.8 |
| Government consumption | 226.6 | 238.8 | 253.4 | 267.6 | 268.6 |
| Gross fixed capital formation | 399.6 | 416.4 | 438.9 | 497.2 | 515.4 |
| Construction | 150.4 | 155.8 | 162.5 | 171.0 | 180.0 |
| Machinery and equipment | 249.2 | 260.6 | 276.4 | 326.2 | 335.3 |
| Change in stocks | 21.3 | 58.0 | 53.0 | 51.8 | -4.2 |
| GDP at market prices | 1,939.7 | 2,130.5 | 2,257.4 | 2,381.9 | 2,441.4 |
| | | | (Percentage change at constant prices) | | |
| Memorandum items: | | | | | |
| Consumption | 4.4 | 7.6 | 4.4 | 4.0 | 3.2 |
| Private | 3.7 | 8.0 | 4.1 | 3.7 | 4.4 |
| Government | 8.7 | 5.4 | 6.1 | 5.6 | 0.4 |
| Gross fixed capital formation | 11.0 | 4.2 | 5.2 | 13.3 | 3.6 |
| Construction | 3.1 | 3.6 | 4.3 | 5.2 | 5.2 |
| Machinery and equipment | 16.4 | 4.6 | 6.1 | 18.0 | 2.8 |
| GDP at market prices | 4.7 | 9.8 | 6.0 | 5.5 | 2.5 |
| GDP at factor cost | 4.2 | 10.5 | 6.0 | 5.6 | 2.0 |
| GDP deflator at market prices | 8.6 | 7.8 | 7.8 | 11.4 | 14.0 |

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

1/ Includes statistical discrepancy.

Table 16. India: GDP at Factor Cost by Sectoral Origin, 1987/88-1991/92

(In billions of rupees)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 Est. | 1991/92 Est. |
|---|---|---|---|---|---|
| | | | (At current prices) | | |
| Agriculture | 923.8 | 1,140.0 | 1,272.0 | 1,531.2 | 1,659.6 |
| Mining and quarrying | 70.8 | 83.0 | 90.5 | 94.1 | 142.0 |
| Manufacturing | 527.8 | 623.4 | 737.7 | 857.9 | 938.4 |
| Electricity, gas, and water | 62.7 | 73.4 | 83.5 | 96.5 | 118.6 |
| Construction | 176.1 | 199.5 | 223.0 | 253.0 | 295.2 |
| Trade, hotels, and restaurants | 384.3 | 452.4 | 508.5 | 597.5 | 687.0 |
| Transport and communications | 199.4 | 238.0 | 277.9 | 340.5 | 443.0 |
| Finance | 247.5 | 287.1 | 343.9 | 396.7 | 485.8 |
| Community services | 355.2 | 412.2 | 478.7 | 558.6 | 639.5 |
| GDP at factor cost | 2,947.6 | 3,509.0 | 4,015.7 | 4,726.0 | 5,495.4 |
| | | | (At constant 1980/81 prices) | | |
| Agriculture | 534.8 | 622.4 | 639.4 | 666.1 | 659.4 |
| Mining and quarrying | 30.8 | 32.8 | 34.8 | 36.1 | 36.4 |
| Manufacturing | 347.0 | 376.4 | 403.5 | 432.8 | 426.7 |
| Electricity, gas, and water | 36.9 | 41.0 | 45.3 | 49.0 | 54.1 |
| Construction | 77.8 | 80.9 | 83.3 | 87.0 | 89.7 |
| Trade, hotels, and restaurants | 218.0 | 236.7 | 249.7 | 266.4 | 271.7 |
| Transport and communications | 92.3 | 98.0 | 107.5 | 113.7 | 127.9 |
| Finance | 168.7 | 184.1 | 203.9 | 216.1 | 228.4 |
| Community services | 195.8 | 207.8 | 225.9 | 237.6 | 245.4 |
| GDP at factor cost | 1,702.1 | 1,880.1 | 1,993.3 | 2,104.8 | 2,146.9 |
| | | | (Percentage change at constant prices) | | |
| Memorandum items: | | | | | |
| GDP at factor cost | 4.2 | 10.5 | 6.0 | 5.6 | 2.0 |
| Agriculture 1/ | 0.5 | 15.8 | 2.9 | 4.2 | -1.0 |
| Industry 2/ | 6.4 | 7.9 | 6.8 | 6.9 | 0.1 |
| Services | 6.1 | 7.7 | 8.3 | 5.9 | 4.0 |

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

1/ Includes mining and quarrying.
2/ Includes manufacturing, electricity, gas and water supply, and construction.

Table 17. India: Savings and Investment, 1988/89-1991/92

(In percent of GDP at market prices)

| | 1988/89 | 1989/90 | 1990/91 | 1991/92 Est. |
|---|---|---|---|---|
| Gross domestic savings | 20.6 | 22.2 | 22.6 | 23.1 |
| Private sector 1/ | 18.5 | 20.5 | 21.7 | 20.9 |
| Public sector | 2.1 | 1.7 | 0.9 | 1.2 |
| Gross capital formation | 23.8 | 25.2 | 25.6 | 24.5 |
| Private sector 1/ | 13.8 | 14.5 | 15.9 | 15.1 |
| Public sector | 10.0 | 10.7 | 9.7 | 9.4 |
| Savings-investment gap | | | | |
| Private sector | 4.7 | 6.0 | 5.8 | 5.8 |
| Public sector | -7.9 | -9.0 | -8.8 | -8.2 |
| Overall | -3.2 | -3.0 | -3.0 | -1.4 |

Sources: Data provided by the Indian authorities; RBI Annual Report, 1991/92; and staff estimates.

1/ Includes errors and omissions.

Table 18. India: Agricultural Production and Yields, 1987/88-1991/92 1/

(Production in millions of tons, unless otherwise indicated; yield in Kg per hectare)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 Est. |
|---|---|---|---|---|---|
| Production | | | | | |
| Foodgrains | 140.4 | 169.9 | 171.0 | 176.2 | 170.0 |
| Rice | 56.9 | 70.5 | 73.6 | 74.6 | 74.0 |
| Wheat | 46.2 | 54.1 | 49.9 | 54.5 | 55.0 |
| Coarse grains | 26.3 | 31.5 | 34.8 | 33.1 | 27.0 |
| Pulses | 11.0 | 13.8 | 12.9 | 14.1 | 13.0 |
| Oilseeds 2/ | 12.7 | 18.0 | 16.9 | 18.5 | 18.3 |
| Cotton 3/ | 6.4 | 8.7 | 11.4 | 9.8 | 9.8 |
| Jute 4/ | 5.8 | 6.7 | 7.1 | 7.8 | 8.9 |
| Sugarcane | 196.7 | 203.0 | 225.6 | 240.3 | 244.8 |
| Tea 5/ | 665 | 701 | 715 | ... | ... |
| Yields | | | | | |
| Foodgrains | 1,173 | 1,331 | 1,349 | 1,382 | 1,372 |
| Rice | 1,465 | 1,689 | 1,756 | 1,751 | 1,760 |
| Wheat | 2,002 | 2,244 | 2,121 | 2,274 | 2,321 |
| Maize | 1,029 | 1,395 | 1,632 | 1,524 | 1,450 |
| Pulses | 515 | 598 | 549 | 576 | 570 |
| Oilseeds | 629 | 824 | 742 | 769 | 732 |
| Cotton | 168 | 202 | 252 | 224 | 219 |
| Jute | 1,496 | 1,748 | 1,879 | 1,803 | 1,842 |
| Sugarcane | 60,006 | 60,992 | 65,612 | 65,269 | 66,162 |
| Tea | 1,606 | 1,683 | 1,704 | ... | ... |
| Memorandum items: | | | | | |
| Production of: | | | | | |
| Kharif foodgrains | 74.6 | 95.6 | 101.0 | 99.9 | 94.2 |
| Rabi foodgrains | 65.8 | 74.3 | 70.0 | 76.3 | 75.0 |

Sources: Government of India, Economic Survey; and data provided by the Indian authorities.

1/ Relates to crop years, July 1-June 30.
2/ Nine major oilseeds.
3/ In million bales of 170 kg. each.
4/ In million bales of 180 kg. each.
5/ In thousands of metric tons.

Table 19. India: Industrial Production Index, 1987/88-1991/92

(Annual percentage change on a gross basis; base year 1980/81)

| | Weight | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 |
|---|---|---|---|---|---|---|
| All industries | 1,000 | 7.3 | 8.7 | 8.6 | 8.5 | -0.1 |
| Manufacturing | 771 | 7.9 | 8.7 | 8.6 | 9.2 | -1.7 |
| Food | 53 | 4.4 | 6.8 | 1.6 | 12.4 | 2.2 |
| Beverages and tobacco | 16 | -13.8 | 8.5 | 11.9 | 1.1 | 1.4 |
| Cotton textiles | 123 | -1.2 | -3.1 | 4.2 | 16.7 | 0.8 |
| Jute textiles | 20 | -10.0 | 12.0 | -4.8 | 3.6 | 0.1 |
| Textile products | 8 | 5.3 | 46.3 | 13.0 | -31.6 | -5.7 |
| Wood products | 4 | -34.3 | 6.2 | 2.5 | 12.6 | -7.2 |
| Paper products | 32 | 1.9 | 3.0 | 6.0 | 8.9 | 3.6 |
| Leather products | 5 | 4.4 | -4.4 | 6.2 | 3.0 | -6.9 |
| Rubber products | 40 | 3.7 | 8.5 | 3.1 | -0.3 | -1.3 |
| Chemicals products | 125 | 14.5 | 16.2 | 6.1 | 2.7 | 2.4 |
| Nonmetallic minerals | 30 | -1.4 | 16.8 | 2.8 | 1.7 | 6.1 |
| Base metals and alloy | 98 | 6.9 | 6.9 | -0.9 | 9.0 | 5.0 |
| Metal except machinery | 23 | 4.1 | 3.0 | 6.8 | 0.3 | -7.0 |
| Machine tools | 62 | -1.8 | 15.8 | 6.8 | 8.0 | -9.1 |
| Electric machinery | 58 | 31.6 | 3.2 | 31.7 | 22.5 | -10.2 |
| Transport equipment | 64 | 4.8 | 12.8 | 5.0 | 6.2 | -9.0 |
| Other | 9 | 15.6 | 12.6 | 9.0 | -3.2 | -16.3 |
| Mining and quarrying | 115 | 3.8 | 7.9 | 6.3 | 4.3 | 0.9 |
| Electricity generation | 114 | 7.7 | 9.5 | 10.8 | 8.6 | 8.3 |
| Memorandum items: | | | | | | |
| Basic industries | 394 | 5.6 | 9.8 | 5.4 | 4.3 | ... |
| Capital goods | 164 | 16.0 | 8.7 | 22.4 | 21.9 | ... |
| Intermediate goods | 205 | 4.7 | 12.2 | 4.3 | 5.6 | ... |
| Consumer goods industries | 237 | 6.3 | 7.2 | 6.3 | 6.1 | ... |
| Durables | 26 | 7.8 | 19.2 | 1.7 | 10.9 | ... |
| Nondurables | 211 | 6.2 | 5.1 | 7.5 | 5.2 | ... |

Source: Data provided by the Indian authorities.

Table 20. India: Energy Sector Statistics, 1987/88-1991/92

(In millions of metric tons)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 Est. |
|---|---|---|---|---|---|
| Crude petroleum | | | | | |
| Domestic production | 30.4 | 32.0 | 34.1 | 32.2 | 30.3 |
| Imports | 17.7 | 17.8 | 19.5 | 20.7 | 24.0 |
| Refinery throughput | 47.7 | 48.8 | 51.9 | 51.8 | 51.4 |
| Stocks at end-period | 3.8 | 3.2 | 3.3 | 3.2 | ... |
| Petroleum products | | | | | |
| Domestic production | 45.6 | 46.8 | 50.0 | 50.2 | 48.4 |
| Net imports | 0.5 | 4.0 | 3.9 | 6.0 | 6.8 |
| Imports | 3.9 | 6.3 | 6.5 | 8.5 | 9.5 |
| Exports | 3.4 | 2.3 | 2.6 | 2.5 | 2.7 |
| Domestic consumption | 46.4 | 50.0 | 53.8 | 54.8 | 56.8 |
| Stocks at end-period | 3.5 | 4.0 | 4.0 | 4.2 | ... |
| Coal | | | | | |
| Output | 179.7 | 194.6 | 200.9 | 211.7 | 229.3 |
| Stocks at end-period | 33.7 | 34.0 | 37.4 | 42.9 | 48.7 |
| Electricity | | | | | |
| Power generation 1/ | 202.1 | 221.4 | 245.1 | 264.2 | 286.7 |
| Thermal | 149.5 | 157.4 | 178.5 | 186.5 | 208.6 |
| Hydro | 47.5 | 57.9 | 62.0 | 71.5 | 72.6 |
| Nuclear | 5.0 | 5.8 | 4.6 | 6.2 | 5.6 |
| Memorandum item: | | | | | |
| Plant load factor for thermal power (in percent) | 56.5 | 55.0 | 56.5 | 53.8 | 55.3 |

Sources: Government of India, Economic Survey; and data provided by the Indian authorities.

1/ Utilities only.

Table 21. India: Price Developments, 1987/88-1991/92

(Annual percentage change)

| | Weight | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 |
|---|---|---|---|---|---|---|
| | | | (Period average) | | | |
| Wholesale price index | 100.0 | 8.2 | 7.4 | 7.4 | 10.1 | 13.7 |
| Primary articles | 32.3 | 11.3 | 4.9 | 2.1 | 13.0 | 18.1 |
| Cereals | 6.8 | 7.5 | 11.7 | 2.2 | 7.7 | 23.2 |
| Crude oil and natural gas | 4.3 | -5.8 | -4.6 | 3.0 | 8.5 | 1.4 |
| Fruits and vegetables | 4.1 | 6.4 | 2.9 | -8.1 | 19.6 | 23.9 |
| Oilseeds | 3.9 | 30.4 | -15.4 | -0.3 | 28.8 | 20.4 |
| Fuel and power | 10.7 | 3.5 | 5.4 | 3.7 | 12.1 | 13.2 |
| Oil products | 6.7 | 0.5 | 2.3 | 0.4 | 19.3 | 16.1 |
| Electricity | 2.7 | 8.6 | 5.9 | 6.3 | 6.6 | 10.9 |
| Manufactures | 57.0 | 7.2 | 9.3 | 11.3 | 8.2 | 11.3 |
| Sugar, etc. | 4.1 | -0.6 | 8.3 | 19.7 | 0.2 | 5.1 |
| Edible oils | 2.4 | 21.8 | -2.9 | 4.1 | 25.0 | 19.1 |
| Cotton textiles | 6.1 | 9.8 | 10.4 | 13.9 | 7.6 | 14.4 |
| Chemicals, etc. | 7.4 | 5.9 | 3.0 | 3.1 | 5.3 | 13.9 |
| Iron and steel | 2.4 | 3.4 | 14.1 | 15.4 | 6.7 | 5.5 |
| Nonelectrical machinery | 3.3 | 2.8 | 14.4 | 12.2 | 9.7 | 15.8 |
| Electrical machinery | 3.0 | 5.2 | 13.4 | 8.3 | 6.5 | 15.4 |
| Transport equipment | 2.7 | 4.5 | 9.8 | 11.8 | 8.9 | 11.7 |
| Consumer price index | 100.0 | 9.2 | 9.0 | 6.6 | 11.2 | 13.5 |
| | | | (End of period) | | | |
| Wholesale price index | 100.0 | 10.7 | 5.7 | 9.1 | 12.1 | 13.6 |
| Primary articles | 32.3 | 15.7 | -0.2 | 6.4 | 17.1 | 15.3 |
| Cereals | 6.8 | 14.4 | 9.2 | -6.2 | 25.3 | 26.9 |
| Crude oil and natural gas | 4.3 | -4.0 | -2.1 | 12.5 | -0.4 | 1.9 |
| Fruits and vegetables | 4.1 | 19.8 | -12.2 | 3.6 | 22.7 | 19.0 |
| Oilseeds | 3.9 | 23.0 | -23.3 | 27.4 | 26.6 | 4.7 |
| Fuel and power | 10.7 | 5.3 | 5.1 | 6.2 | 14.4 | 13.7 |
| Oil products | 6.7 | 2.3 | 1.1 | 9.1 | 20.6 | 3.2 |
| Electricity | 2.7 | 4.4 | 8.3 | 4.7 | 11.4 | 13.7 |
| Manufactures | 57.0 | 8.9 | 9.2 | 11.1 | 8.9 | 12.6 |
| Sugar, etc. | 4.1 | 6.7 | 13.1 | 13.1 | 0.1 | 5.5 |
| Edible oils | 2.4 | 12.3 | -7.4 | 17.2 | 32.7 | 1.9 |
| Cotton textiles | 6.1 | 13.3 | 8.2 | 16.6 | 6.5 | 16.0 |
| Chemicals, etc. | 7.4 | 4.5 | 2.7 | 4.8 | 7.3 | 15.5 |
| Iron and steel | 2.4 | 14.3 | 10.4 | 11.8 | 6.0 | 4.5 |
| Nonelectrical machinery | 3.3 | 6.0 | 15.9 | 10.4 | 11.2 | 18.6 |
| Electrical machinery | 3.0 | 9.4 | 12.2 | 5.4 | 9.5 | 17.0 |
| Transport equipment | 2.7 | 6.6 | 12.2 | 10.6 | 9.5 | 11.2 |
| Consumer price index | 100.0 | 9.8 | 8.6 | 6.6 | 13.6 | 13.9 |

Source: Data provided by the Indian authorities.

Table 22. India: Employment and Labor Statistics, 1986/87-1990/91

(In millions, end of period)

| | 1986/87 | 1987/88 | 1988/89 | 1989/90 | 1990/91 |
|---|---|---|---|---|---|
| Employment in the organized sector 1/ | 25.4 | 25.7 | 26.0 | 26.3 | 26.8 |
| Public sector | 18.0 | 18.3 | 18.5 | 18.7 | 19.0 |
| Central Government | (3.3) | (3.4) | (3.4) | (...) | (...) |
| State Governments | (6.7) | (6.8) | (6.9) | (...) | (...) |
| Public enterprises | (5.8) | (5.9) | (6.0) | (...) | (...) |
| Local authorities | (2.2) | (2.2) | (2.2) | (...) | (...) |
| Private sector | 7.4 | 7.4 | 7.5 | 7.6 | 7.8 |
| Agriculture | (0.8) | (0.8) | (0.9) | (...) | (...) |
| Manufacturing | (4.4) | (4.4) | (4.4) | (...) | (...) |
| Other | (2.1) | (2.2) | (2.2) | (...) | (...) |
| Employment in the small-scale sector 2/ | 10.1 | 10.7 | ... | ... | ... |
| Number of job seekers (end-December) | 30.1 | 30.2 | 30.1 | 32.8 | 34.6 |
| Number of work days lost through industrial disputes 3/ | 34.5 | 39.7 | 29.1 | 30.8 | 22.7 |
| Strikes | 20.9 | 15.8 | 8.3 | 10.4 | 10.0 |
| Lockouts | 13.6 | 23.9 | 20.8 | 20.3 | 12.7 |

Source: Data provided by the Indian authorities.

1/ All establishments in the public sector and nonagricultural private establishments with ten or more employees.
2/ Data based on sample surveys of small-scale units registered with State Directorates of Industries.
3/ For industrial disputes involving ten or more workers.

Table 23. India: Consolidated Public Sector Operations, 1987/88-1991/92 1/

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 Budget Estimates | 1991/92 Revised Estimates |
|---|---|---|---|---|---|---|
| | | | (In billions of rupees) | | | |
| Total revenue and grants 2/ | 739.8 | 863.2 | 1003.4 | 1099.8 | 1332.9 | 1328.7 |
| Tax revenue | 569.8 | 669.3 | 776.9 | 879.1 | 1029.0 | 1011.3 |
| Nontax revenue 2/ | 165.1 | 187.9 | 219.0 | 214.7 | 295.2 | 307.6 |
| Grants | 4.9 | 6.0 | 7.5 | 5.9 | 8.7 | 9.8 |
| Total expenditure and net lending 3/ | 1,095.2 | 1,269.8 | 1,532.5 | 1,744.2 | 1,965.0 | 1,944.9 |
| Development | 688.0 | 795.5 | 985.0 | 1,079.5 | 1,167.3 | 1,161.0 |
| Nondevelopment | 433.7 | 505.0 | 578.8 | 701.2 | 834.4 | 820.9 |
| Loan repayments | 26.5 | 30.7 | 31.3 | 36.5 | 36.7 | 37.0 |
| Overall deficit (-) | -355.4 | -406.6 | -529.1 | -644.4 | -632.1 | -616.2 |
| | | | (In percent of GDP) | | | |
| Revenue and grants | 22.2 | 21.9 | 22.3 | 20.8 | 21.5 | 21.5 |
| Total expenditure and net lending | 32.9 | 32.1 | 34.0 | 32.9 | 31.7 | 31.4 |
| Overall deficit (-) | -10.7 | -10.3 | -11.7 | -12.2 | -10.2 | -10.0 |

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

1/ Data up to 1991/92 budget estimates are official figures rearranged to Fund format. Data for 1991/92 revised estimates are estimates based on information provided by the authorities. The consolidation covers budgetary transactions at the levels of the Central and State Governments, the departmental undertakings of both levels of Government, the balance of the Oil Coordination Committee, and the central public enterprises.

2/ Including internal resources of public enterprises indicated in footnote 1.

3/ Including investment expenditure by public enterprises indicated in footnote 1.

Table 24. India: Central Government Operations, 1987/88-1992/93

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 Budget Estimates | 1991/92 Revised Estimates | 1992/93 Budget Estimates |
|---|---|---|---|---|---|---|---|
| | | | | (In billions of rupees) | | | |
| Total revenue and grants | 397.7 | 462.7 | 523.4 | 576.6 | 699.1 | 716.4 | 831.4 |
| Tax revenue | 280.2 | 337.5 | 383.5 | 429.8 | 525.0 | 500.0 | 574.4 |
| Nontax revenue | 113.4 | 120.1 | 132.4 | 140.9 | 167.0 | 206.6 | 248.3 |
| Foreign grants | 4.1 | 5.1 | 7.5 | 5.9 | 7.1 | 9.8 | 8.7 |
| Expenditure and net lending | 653.9 | 759.2 | 902.9 | 1,023.2 | 1,076.4 | 1,110.5 | 1,185.9 |
| Current expenditure | 474.9 | 555.1 | 665.7 | 762.2 | 837.6 | 878.3 | 947.5 |
| Capital expenditure and net lending | 179.0 | 204.1 | 237.2 | 261.0 | 238.8 | 232.2 | 238.4 |
| Overall deficit 1/ | -256.2 | -296.5 | -379.5 | -446.6 | -377.3 | -394.1 | -354.5 |
| Financing | 256.2 | 296.5 | 379.5 | 446.6 | 377.3 | 394.1 | 354.5 |
| External (net) | 34.1 | 24.6 | 26.0 | 31.8 | 35.0 | 50.6 | 54.0 |
| Borrowing | 46.6 | 40.2 | 43.0 | 53.4 | 69.1 | 85.4 | 103.3 |
| Repayments | 12.5 | 15.6 | 17.0 | 21.6 | 34.1 | 34.8 | 49.3 |
| Domestic (net) | 222.1 | 271.9 | 353.5 | 414.8 | 342.3 | 343.5 | 300.5 |
| Banking system | 110.2 | 110.6 | 154.0 | 170.5 | ... | 161.3 | 75.9 |
| Reserve Bank | 65.6 | 65.0 | 106.3 | 113.5 | 72.1 | 70.3 | 53.9 |
| Commercial Banks | 44.6 | 45.6 | 47.7 | 57.0 | ... | 91.0 | 22.0 |
| Small savings 2/ | 36.3 | 54.8 | 85.9 | 91.0 | ... | 64.0 | 72.0 |
| Other 3/ | 75.6 | 106.5 | 113.6 | 153.3 | ... | 118.2 | 152.6 |
| | | | | (In percent of GDP) | | | |
| Total revenue and grants | 12.0 | 11.7 | 11.6 | 10.9 | 11.3 | 11.6 | 11.9 |
| Current expenditure | 14.3 | 14.1 | 14.8 | 14.4 | 13.5 | 14.2 | 13.5 |
| Capital expenditure and net lending | 5.4 | 5.2 | 5.3 | 4.9 | 3.9 | 3.8 | 3.4 |
| Overall deficit | -7.7 | -7.5 | -8.4 | -8.4 | -6.1 | -6.4 | -5.1 |

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

1/ Excluding the balance of the Oil Coordination Committee (OCC).
2/ Includes small savings on-lent to States and Union Territories.
3/ Market borrowing, Provident Funds, and other miscellaneous capital receipts.

Table 25. India: Central Government Revenue, 1987/88-1992/93 1/

(In billions of rupees)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 Budget Estimates | 1991/92 Revised Estimates | 1992/93 Budget Estimates |
|---|---|---|---|---|---|---|---|
| Tax revenue (including States' share) | 376.7 | 444.7 | 516.4 | 575.8 | 688.5 | 675.6 | 775.0 |
| Taxes on income and profits | 66.3 | 86.5 | 97.3 | 107.1 | 133.9 | 151.2 | 168.1 |
| Corporate tax | 34.3 | 44.1 | 47.3 | 53.4 | 67.0 | 77.8 | 81.3 |
| Personal income tax | 31.9 | 42.4 | 50.0 | 53.7 | 61.5 | 68.0 | 78.8 |
| Interest tax | 0.1 | -- | -- | -- | 5.4 | 5.4 | 8.0 |
| Taxes on property | 1.5 | 1.7 | 2.4 | 2.9 | 2.9 | 3.3 | 3.8 |
| Estate duty and gift taxes | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Wealth and land taxes | 1.0 | 1.2 | 1.8 | 2.3 | 2.3 | 2.6 | 3.0 |
| Stamp duties | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 | 0.7 |
| Taxes on goods and services | 171.9 | 198.4 | 236.3 | 259.4 | 292.7 | 295.6 | 341.3 |
| Excise taxes | 164.3 | 188.4 | 224.1 | 245.1 | 274.0 | 280.9 | 322.1 |
| Sales tax | 4.4 | 5.3 | 6.5 | 8.3 | 9.9 | 9.8 | 11.9 |
| Expenditure tax | 0.1 | 0.4 | 0.4 | 0.8 | 2.4 | 1.1 | 0.5 |
| Other | 3.1 | 4.3 | 5.3 | 5.2 | 6.4 | 3.8 | 6.8 |
| Taxes on international trade | 137.0 | 158.1 | 180.4 | 206.4 | 259.0 | 222.8 | 261.8 |
| Import duties | 136.4 | 157.6 | 180.0 | 206.1 | 258.5 | 222.3 | 261.2 |
| Export duties and cesses | 0.6 | 0.5 | 0.4 | 0.3 | 0.5 | 0.5 | 0.6 |
| Less: States' share of tax revenue | 96.5 | 107.2 | 132.9 | 146.0 | 163.4 | 172.9 | 200.7 |
| Tax revenue (net of States' share) | 280.2 | 337.5 | 383.5 | 429.8 | 525.1 | 500.0 | 574.3 |
| Nontax revenue | 113.4 | 120.1 | 101.0 | 128.4 | 175.0 | 165.4 | 227.9 |
| Dividends and profits 2/ | 6.1 | 4.7 | 7.2 | 7.8 | 9.7 | 10.5 | 26.2 |
| Interest | 57.5 | 69.8 | 84.7 | 95.7 | 110.1 | 113.0 | 134.6 |
| Oil sector receipts | 18.9 | 17.5 | -20.1 | -7.4 | 13.2 | -4.7 | 10.6 |
| Royalties | 4.8 | 4.8 | 4.9 | 5.1 | 5.2 | 6.3 | 6.1 |
| Oil Coordination Committee | 14.1 | 12.7 | -25.0 | -12.5 | 8.0 | -11.0 | 4.5 |
| Other receipts | 30.9 | 28.1 | 29.2 | 32.3 | 42.0 | 46.6 | 56.5 |
| Foreign grants | 4.1 | 5.1 | 7.5 | 5.9 | 7.1 | 9.8 | 8.7 |
| Total revenue and grants | 397.7 | 462.7 | 492.0 | 564.1 | 707.2 | 675.2 | 810.9 |

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

1/ The data in this table includes the balance of the OCC, and excludes proceeds from asset sales, which explain the differences vis-à-vis certain items in Table 24.

2/ Includes Reserve Bank profits.

Table 26. India: Economic Classification of
Central Government Expenditure, 1987/88-1991/92 1/

(In billions of rupees)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 Prov. | 1991/92 Est. |
|---|---|---|---|---|---|
| Current expenditure | 474.9 | 555.1 | 665.7 | 762.2 | 878.3 |
| Expenditure on goods and services | 165.5 | 187.6 | 211.5 | 237.7 | 254.0 |
| Wages and salaries | 75.0 | 84.3 | 94.5 | 107.4 | 119.0 |
| Other goods and services | 90.5 | 103.3 | 117.0 | 130.3 | 135.0 |
| Interest payments | 107.2 | 133.5 | 177.6 | 214.7 | 272.5 |
| Domestic | 97.2 | 121.1 | 161.4 | 196.3 | 245.7 |
| Foreign | 9.8 | 12.4 | 16.2 | 18.4 | 26.8 |
| Subsidies and current transfers | 146.6 | 180.5 | 213.7 | 243.8 | 264.0 |
| Subsidies | 59.8 | 78.6 | 108.7 | 110.5 | 114.9 |
| Food | 20.0 | 22.0 | 24.8 | 24.5 | 30.1 |
| Fertilizer | 21.6 | 32.0 | 46.1 | 44.0 | 52.8 |
| Export promotion and market | 9.6 | 13.9 | 20.9 | 27.0 | 17.7 |
| Other | 8.6 | 10.7 | 16.9 | 15.0 | 14.3 |
| Transfers | 86.8 | 101.9 | 105.0 | 133.3 | 149.1 |
| States and Union Territories | 48.9 | 57.4 | 56.3 | 78.9 | 87.7 |
| Local authorities | 0.7 | 1.0 | 1.0 | 1.1 | 1.1 |
| Households | 11.6 | 13.7 | 16.0 | 15.3 | 16.6 |
| Other | 25.6 | 29.8 | 31.7 | 38.0 | 43.7 |
| Unclassified | 55.6 | 53.5 | 62.9 | 66.0 | 87.8 |
| Capital expenditure | 179.0 | 204.1 | 237.2 | 261.0 | 232.2 |
| Gross fixed capital formation | 56.8 | 69.8 | 77.9 | 84.8 | 88.0 |
| Buildings and construction | 40.5 | 46.6 | 51.2 | 57.7 | 59.0 |
| Machinery and equipment | 16.3 | 23.2 | 26.7 | 27.1 | 29.0 |
| Increase in stocks | 2.8 | 0.8 | 3.4 | 2.0 | 3.8 |
| Capital transfers | 54.7 | 57.5 | 58.6 | 58.3 | 59.8 |
| Other levels of government | 43.2 | 43.4 | 30.9 | 41.0 | 43.0 |
| Other | 11.5 | 14.1 | 27.7 | 17.3 | 16.8 |
| Gross lending less loan repayments | 64.7 | 76.0 | 97.3 | 115.9 | 80.6 |
| Total expenditure and net lending | 653.9 | 759.2 | 902.9 | 1,023.2 | 1,110.5 |

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

1/ Data have been adjusted to ensure conformity with the presentation in Government Finance Statistics Yearbook (International Monetary Fund).

Table 27. India: Functional Classification of
Central Government Expenditure, 1987/88-1991/92 1/

(In billions of rupees)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 Prov. | 1991/92 Est. |
|---|---|---|---|---|---|
| General public services | 32.9 | 37.4 | 45.2 | 56.6 | 60.1 |
| Defense | 118.8 | 132.4 | 145.0 | 154.3 | 163.5 |
| Education | 12.1 | 13.6 | 14.2 | 16.7 | 18.2 |
| Medical and health services | 3.2 | 3.9 | 4.7 | 5.5 | 6.0 |
| Other social and community services | 14.7 | 20.2 | 44.5 | 26.6 | 31.4 |
| Economic services | 144.5 | 175.2 | 219.8 | 244.0 | 229.5 |
| Agriculture | 32.2 | 40.4 | 53.8 | 68.7 | 66.7 |
| Industry and minerals | 57.8 | 64.8 | 79.2 | 88.9 | 70.2 |
| Transport and communications | 33.5 | 43.8 | 55.9 | 58.3 | 61.4 |
| Railways | 13.5 | 14.6 | 17.7 | 15.9 | 16.9 |
| Post and telegraphs | 0.3 | 0.6 | 2.9 | 1.0 | 0.7 |
| Other | 7.2 | 11.0 | 10.3 | 11.2 | 13.6 |
| Other | 367.1 | 419.5 | 475.5 | 561.7 | 646.8 |
| Interest | 107.2 | 133.5 | 177.6 | 214.7 | 272.5 |
| Pensions | 11.6 | 13.8 | 16.0 | 15.3 | 16.6 |
| Grants to States and Union Territories | 92.1 | 100.8 | 87.1 | 131.7 | 152.3 |
| Loans and advances | 129.6 | 145.3 | 169.1 | 184.4 | 181.6 |
| Other | 26.6 | 26.1 | 25.7 | 15.6 | 23.8 |
| Total expenditure and gross lending | 693.3 | 802.2 | 948.9 | 1,065.4 | 1,155.5 |
| Less: Loan repayments | 39.4 | 43.0 | 46.0 | 42.2 | 45.0 |
| Total expenditure and net lending | 653.9 | 759.2 | 902.9 | 1,023.2 | 1,110.5 |

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

1/ Data have been adjusted to ensure conformity with the presentation in Government Finance Statistics Yearbook (International Monetary Fund).

Table 28. India: Central Government Debt, 1987/88-1991/92

(In billions of rupees)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 Prov. | 1991/92 Est. |
|---|---|---|---|---|---|
| Domestic debt | 1,723.4 | 2,040.2 | 2,398.5 | 3,176.8 | 3,557.8 |
| Market loans | 467.0 | 551.1 | 625.2 | 780.2 | 830.2 |
| Treasury Bills | 80.3 | 148.4 | 259.5 | 152.3 | 206.0 |
| 91-day | 80.3 | 142.7 | 251.8 | 121.5 | 170.2 |
| 182-day | -- | 5.7 | 7.7 | 30.8 | 35.8 |
| Special securities 1/ | 371.8 | 369.9 | 368.8 | 670.5 | 670.5 |
| Small savings | 283.6 | 338.3 | 417.9 | 556.2 | 617.9 |
| Provident funds | 66.4 | 79.5 | 96.7 | 139.2 | 164.2 |
| Other 2/ | 454.3 | 553.0 | 630.4 | 878.4 | 1,069.0 |
| External debt | 232.2 | 257.5 | 283.4 | 355.0 | 395.6 |
| Total debt | 1,955.6 | 2,297.7 | 2,681.9 | 3,531.8 | 3,953.4 |
| In percent of GDP | 58.8 | 58.2 | 59.5 | 66.7 | 63.9 |

Source: Receipts Budget, various issues, Government of India.

1/ Issued to the Reserve Bank.
2/ Includes compensation, bearer and other bonds, securities issued to international financial institutions, and other deposits.

Table 29. India: Finances of States and Union Territories, 1987/88-1991/92

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 Budget Estimates | 1991/92 Revised Estimates |
|---|---|---|---|---|---|---|
| | | | (In billions of rupees) | | | |
| Total revenue and grants | 409.0 | 464.7 | 536.2 | 621.7 | 722.7 | 732.1 |
| Tax revenue | 290.4 | 331.9 | 391.5 | 448.9 | 504.4 | 511.3 |
| Share of central government revenue | 96.5 | 107.2 | 132.9 | 146.0 | 163.4 | 172.9 |
| Sales tax | 111.4 | 130.9 | 143.7 | 166.9 | 190.9 | 183.5 |
| Other tax revenue | 82.5 | 93.8 | 114.9 | 136.0 | 150.1 | 154.9 |
| Nontax revenue 1/ | 32.2 | 35.8 | 59.0 | 35.1 | 62.3 | 60.0 |
| Grants from Center | 86.4 | 97.0 | 85.7 | 137.7 | 156.0 | 160.8 |
| Total expenditure | 538.9 | 610.5 | 712.2 | 838.6 | 961.1 | 960.0 |
| Development 2/ | 385.1 | 429.4 | 498.1 | 572.0 | 642.3 | 640.0 |
| Nondevelopment | 153.8 | 181.1 | 214.1 | 266.6 | 318.8 | 320.0 |
| Overall deficit (-) | -129.9 | -145.8 | -176.0 | -216.9 | -238.4 | -227.9 |
| Financing | 129.9 | 145.8 | 176.0 | 216.9 | 238.4 | 227.9 |
| Loans fron Center | 58.2 | 67.1 | 79.4 | 103.9 | 113.8 | 112.0 |
| Others 3/ | 71.7 | 78.7 | 96.6 | 113.0 | 124.6 | 115.9 |
| | | | (In percent of GDP) | | | |
| Total revenue and grants | 12.3 | 11.8 | 11.9 | 11.7 | 11.7 | 11.8 |
| Tax revenue | 8.7 | 8.4 | 8.7 | 8.5 | 8.1 | 8.3 |
| Share of central government revenue | 2.9 | 2.7 | 2.9 | 2.8 | 2.6 | 2.8 |
| Sales tax | 3.3 | 3.3 | 3.2 | 3.2 | 3.1 | 3.0 |
| Other tax revenue | 2.5 | 2.4 | 2.5 | 2.6 | 2.5 | 2.5 |
| Nontax revenue | 1.0 | 0.9 | 1.3 | 0.7 | 1.0 | 1.0 |
| Grants from Center | 2.6 | 2.5 | 1.9 | 2.6 | 2.5 | 2.6 |
| Total expenditure | 16.2 | 15.5 | 15.8 | 15.8 | 15.5 | 15.5 |
| Development | 11.6 | 10.9 | 11.1 | 10.8 | 10.4 | 10.3 |
| Nondevelopment | 4.6 | 4.6 | 4.8 | 5.0 | 5.2 | 5.2 |
| Overall deficit (-) | -3.9 | -3.7 | -3.9 | -4.1 | -3.9 | -3.7 |

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

1/ Includes surplus of States' public enterprises available for financing of the Plan.
2/ Includes Plan expenditure by State enterprises financed from internal resources, extrabudgetary resources, and borrowing.
3/ Market borrowing, other miscellaneous capital receipts, and borrowing from the banking system.

Table 30. India: Fiscal Deficits of 12 Largest States, 1989/90-1992/93

(In billions of rupees)

| | 1989/90 | 1990/91 | 1991/92 Budget Estimates | 1992/93 Budget Estimates |
|---|---|---|---|---|
| | (Figures in parenthesis in percent of GDP) | | | |
| Uttar Pradesh | 30.1 | 39.3 | 39.8 | 38.8 |
| | (0.7) | (0.7) | (0.6) | (0.6) |
| Maharashtra | 22.1 | 20.7 | 26.8 | 29.7 |
| | (0.5) | (0.4) | (0.4) | (0.4) |
| Tamil Nadu | 14.1 | 15.3 | 14.8 | 15.9 |
| | (0.3) | (0.3) | (0.2) | (0.2) |
| West Bengal | 13.9 | 19.2 | 16.8 | 17.9 |
| | (0.3) | (0.4) | (0.3) | (0.3) |
| Bihar | 13.1 | 19.0 | 20.0 | 19.5 |
| | (0.3) | (0.4) | (0.3) | (0.3) |
| Andhra Pradesh | 12.9 | 12.3 | 14.8 | 14.9 |
| | (0.3) | (0.2) | (0.2) | (0.2) |
| Gujarat | 12.4 | 20.9 | 18.4 | 18.1 |
| | (0.3) | (0.4) | (0.3) | (0.3) |
| Punjab | 10.9 | 14.2 | 14.6 | 23.4 |
| | (0.2) | (0.3) | (0.2) | (0.3) |
| Karnataka | 10.7 | 10.9 | 11.2 | 12.6 |
| | (0.2) | (0.2) | (0.2) | (0.2) |
| Madhya Pradesh | 9.5 | 13.5 | 15.5 | 13.1 |
| | (0.2) | (0.3) | (0.3) | (0.2) |
| Rajasthan | 9.0 | 10.8 | 18.6 | 12.9 |
| | (0.2) | (0.2) | (0.3) | (0.2) |
| Orissa | 7.3 | 8.8 | 11.3 | 12.7 |
| | (0.2) | (0.2) | (0.2) | (0.2) |
| Total of 12 largest States | 166.0 | 204.9 | 222.6 | 229.5 |
| | (3.7) | (3.8) | (3.6) | (3.3) |
| Total of all 25 States | 176.0 | 216.9 | 238.4 | 269.3 |
| | (3.9) | (4.1) | (3.9) | (3.8) |

Sources: Reserve Bank of India Bulletin, September 1992; and other data provided by the Indian authorities.

Table 31. India: Reserve Money, 1988/89-1992/93 1/

| | 1988/89 | 1989/90 | 1990/91 | 1991/92 | | | | 1992/93 | |
|---|---|---|---|---|---|---|---|---|---|
| | March | March | March | June | Sept. | Dec. | March | June | Sept. |
| | (In billions of rupees at end of period) | | | | | | | | |
| Reserve money | 630 | 776 | 878 | 925 | 898 | 960 | 995 | 1,055 | 1,051 |
| Currency in circulation | 401 | 483 | 553 | 595 | 561 | 616 | 637 | 668 | 644 |
| Currency with public | 383 | 463 | 531 | 568 | 538 | 592 | 613 | 640 | 618 |
| Cash with banks | 18 | 20 | 22 | 27 | 23 | 24 | 25 | 28 | 26 |
| Bankers' deposits | 221 | 287 | 318 | 316 | 328 | 336 | 349 | 329 | 346 |
| Other deposits | 7 | 6 | 7 | 14 | 9 | 8 | 9 | 59 | 61 |
| Net domestic assets of RBI | 568 | 715 | 798 | 857 | 819 | 816 | 807 | 858 | 862 |
| Net claims on Government | 596 | 737 | 888 | 959 | 959 | 970 | 940 | 963 | 978 |
| Center | 582 | 720 | 868 | 959 | 957 | 966 | 923 | 962 | 977 |
| States | 14 | 17 | 21 | -- | 3 | 4 | 18 | 2 | 1 |
| Gross claims on banks | 71 | 75 | 100 | 100 | 75 | 46 | 51 | 57 | 53 |
| Gross claims on commercial sector | 55 | 63 | 63 | 55 | 54 | 55 | 73 | 74 | 60 |
| Other items, net | -155 | -160 | -254 | -257 | -269 | -255 | -257 | -235 | -230 |
| Net foreign assets of RBI | 62 | 61 | 80 | 68 | 79 | 144 | 188 | 197 | 189 |
| | (Percent change) | | | | | | | | |
| Reserve money | 17.7 | 23.2 | 13.1 | 16.7 | 16.8 | 18.7 | 13.3 | 14.2 | 17.0 |
| Net domestic assets of RBI | 18.1 | 26.0 | 11.6 | 16.5 | 12.7 | 12.7 | 1.1 | 0.2 | 5.1 |
| Net claims on Government | 13.1 | 23.6 | 20.6 | 20.4 | 21.0 | 13.8 | 5.8 | 0.4 | 2.0 |
| Gross claims on banks | 59.4 | 5.6 | 33.9 | 73.5 | 57.3 | -14.9 | -49.0 | -43.1 | -28.7 |
| Gross claims on commercial sector | 45.8 | 14.9 | -0.1 | 10.7 | -0.3 | 0.2 | 14.5 | 33.8 | 11.0 |
| | (In billions of rupees) | | | | | | | | |
| Memorandum item: | | | | | | | | | |
| Flow monetization of fiscal deficit 2/ | 65 | 138 | 147 | 92 | 89 | 98 | 55 | 39 | 55 |

Source: Data provided by the Indian authorities.

1/ Except for March 31, all other quarters are on a last reporting Friday basis.
2/ Cumulative flow of credit to the Central Government from April 1 of fiscal year.

Table 32. India: Monetary Survey, 1988/89-1992/93 1/

| | 1988/89 | 1989/90 | 1990/91 | 1991/92 | | | | 1992/93 | |
|---|---|---|---|---|---|---|---|---|---|
| | March | March | March | June | Sept. | Dec. | March | June | Sept. |
| | | | | (In billions of rupees at end of period) | | | | | |
| Broad money (M3) | 1,935 | 2,310 | 2,658 | 2,783 | 2,849 | 3,012 | 3,151 | 3,333 | 3,387 |
| Currency with public | 383 | 463 | 531 | 568 | 538 | 592 | 613 | 640 | 618 |
| Deposits | 1,545 | 1,841 | 2,121 | 2,202 | 2,302 | 2,411 | 2,530 | 2,635 | 2,708 |
| Nonbank deposits at RBI | 7 | 6 | 7 | 14 | 9 | 8 | 9 | 59 | 61 |
| Net domestic assets | 1,867 | 2,243 | 2,572 | 2,710 | 2,764 | 2,861 | 2,956 | 3,129 | 3,191 |
| Domestic credit | 2,244 | 2,689 | 3,120 | 3,247 | 3,279 | 3,391 | 3,495 | 3,643 | 3,704 |
| Net credit to Government | 965 | 1,172 | 1,402 | 1,507 | 1,540 | 1,592 | 1,583 | 1,647 | 1,695 |
| Credit to commercial sector | 1,279 | 1,517 | 1,718 | 1,740 | 1,738 | 1,800 | 1,912 | 1,996 | 2,008 |
| Commercial banks | 847 | 1,015 | 1,163 | 1,176 | 1,159 | 1,195 | 1,256 | 1,338 | 1,354 |
| Nonfood | 839 | 994 | 1,118 | 1,122 | 1,119 | 1,150 | 1,209 | 1,287 | 1,317 |
| Food | 8 | 20 | 45 | 53 | 40 | 46 | 47 | 51 | 37 |
| Other 2/ | 432 | 503 | 555 | 564 | 579 | 604 | 656 | 659 | 654 |
| Other items (net) | -377 | -446 | -548 | -537 | -514 | -530 | -539 | -513 | -512 |
| Net foreign assets | 68 | 67 | 87 | 73 | 85 | 151 | 195 | 204 | 196 |
| | | | | (Percent change) | | | | | |
| Broad money (M3) | 17.8 | 19.4 | 15.1 | 15.2 | 16.3 | 17.8 | 18.5 | 19.7 | 18.9 |
| Currency with public | 14.2 | 20.8 | 14.6 | 15.6 | 13.4 | 18.0 | 15.5 | 12.6 | 14.8 |
| Deposits | 18.5 | 19.2 | 15.2 | 14.9 | 16.9 | 18.2 | 19.3 | 19.7 | 17.7 |
| Net domestic assets | 17.7 | 20.1 | 14.7 | 15.2 | 15.1 | 16.0 | 14.9 | 15.5 | 15.4 |
| Domestic credit | 16.9 | 19.8 | 16.0 | 16.1 | 15.2 | 13.1 | 12.0 | 12.9 | 13.0 |
| Net credit to Government | 14.3 | 21.4 | 19.7 | 19.3 | 18.9 | 16.8 | 12.9 | 9.3 | 10.1 |
| Credit to commercial sector | 19.0 | 18.6 | 13.2 | 13.4 | 12.0 | 10.1 | 11.3 | 16.1 | 17.4 |
| Commercial bank credit to nonfood | 19.9 | 18.5 | 12.4 | 12.1 | 12.1 | 9.4 | 8.2 | 14.9 | 17.7 |
| Memorandum item: | | | | | | | | | |
| Domestic liquidity growth 3/ | ... | ... | 14.1 | 14.8 | 16.2 | 17.2 | 16.2 | 15.9 | 14.9 |

Source: Data provided by the Indian authorities.

1/ End-year data are a consolidation of March 31 data for the RBI and the last reporting Friday data for commercial banks; all other quarters are on a last reporting Friday basis.
2/ Includes RBI commercial credit, bank holdings of securities, and credit to cooperatives.
3/ Growth in broad money excluding India Development Bonds and NRI deposits.

Table 33. India: Selected Interest Rates, 1988/89-1992/93

(End of period; in percent per annum)

| | 1988/89 | 1989/90 | 1990/91 | 1991/92 | 1992/93 (end-October) |
|---|---|---|---|---|---|
| Reserve Bank of India | | | | | |
| Bank rate | 10.0 | 10.0 | 10.0 | 12.0 | 12.0 |
| Export refinance | 9.0 | 9.0 | 9.0 | 9.5 | 9.5 |
| Food refinance | 11.5 | 11.5 | 11.5 | 14.0 | 14.0 |
| Stand-by refinance | 12.5 | 12.5 | 12.5 | 13.5 | 13.5 |
| Discretionary | 16.0 | 16.0 | 14.0 | 17.0 | 17.0 |
| 182-day Treasury bill refinance | ... | 10.3 | 10.8 | 11.3 | 11.3 |
| Interest on bank reserves | | | | | |
| Base rate 1/ | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| Incremental rate 2/ | 10.5 | 10.5 | 5.0 | 5.0 | -- |
| Discount and Finance House of India, Ltd. | | | | | |
| 182-day Treasury bill refinance | 11.0 | 9.5 | 10.3 | 13.0 | 10.0 3/ |
| Commercial bills refinance | 15.2 | 13.0 | 16.8 | 14.0 | 17.0 3/ |
| Commercial bank deposits | | | | | |
| 3-6 months | 8.0 | 8.0 | 8.0 | 13 percent ceiling | 12 percent ceiling |
| 6-9 months | 8.0 | 8.0 | 8.0 | | |
| 1-2 years | 9.0 | 9.0 | 9.0 | | |
| 2-3 years | 10.0 | 10.0 | 10.0 | | |
| 3-5 years | 10.0 | 10.0 | 11.3 | | |
| Over 5 years | 10.0 | 10.0 | 11.0 | | |
| Savings deposits | 5.0 | 5.0 | 5.0 | 5.0 | 6.0 |
| Commercial bank loans | | | | | |
| Exports | 7.5-15.5 | 7.5-15.5 | 7.5-15.5 | 7.5-24.0 | 5.5-23.0 |
| Food | 14.0 | 14.0 | 16.0 | 19.0 | 18.0 |
| General 4/ | 16.0 | 16.0 | 16.0 | 19.0 | 18.0 |
| Government obligations | | | | | |
| Three-month Treasury bills | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 |
| 364-day bills | ... | ... | ... | ... | 11.3 |
| Bonds: maximum yield | 11.7 | 11.8 | 11.8 | 12.3 | 12.8 |
| Private sector obligations | | | | | |
| Call money rate 5/ | 9.8 | 11.5 | 13.2 | 17.2 | 12.0 |
| Unit trust dividend rate 6/ | 18.0 | 18.0 | 19.5 | ... | ... |
| Preference shares (ceiling rate) | 14.0 | 14.0 | 14.0 | ... | ... |
| Debentures (ceiling rate) 7/ | 14.0 | 14.0 | 14.0 | ... | ... |

Source: Data provided by the Indian authorities.

1/ Paid on required reserves relating to bank deposits through March 1990.
2/ Paid on required reserves relating to the increment in bank deposits after March 1990.
3/ Mid-May.
4/ Floor rate on loans over Rs 200,000.
5/ Effective May 1, 1989, the Indian Banks' Association (IBA) withdrew the ceiling on call money rate of 10 percent per annum fixed in April 1980.
6/ Pertains to Unit Scheme 1964; the accounting year of Unit Trust of India is July-June.
7/ Effective September 1991, the ceiling on private debenture interest rates was removed.

Table 34. India: Principal Monetary Policy Measures relating to Refinancing Limits and Bank Lending Guidelines, 1990/91-1992/93

| Year | Refinancing Limits | Bank Lending Guidelines |
| --- | --- | --- |
| 1990/91 | April: With effect from April 6, 1990, the interest rate on 182 days treasury bills refinance was raised from 10.5 percent to 11.25 percent per annum | April: Banks were advised to conserve their resources to meet a food credit requirement estimated at around Rs 9 billion in the first half of the year. They were to continue to strictly observe the stipulation regarding expansion in nonfood credit: incremental nonfood credit to deposit ratio for 1990-91 was set at 60 percent. |
| | August: With effect from August 25, 1990 banks were provided export credit refinance equivalent to 75 percent of the increase in export credit over the monthly average level of export credit for the financial year 1988-89 instead of the monthly average level for the calendar year 1987. | |
| | October: The banks were advised that the facility to draw discretionary refinance <u>without prior sanction</u> from the Reserve Bank of India would not be available to scheduled commercial banks during the three fortnights covering the period March 9, 1991 to April 19, 1991. | October: Banks were advised that provision of adequate food credit should be a first charge on their lendable resources. |
| | January: With effect from January 1, 1991, scheduled commercial banks are provided export credit refinance equivalent to 100 percent of the increase in export credit over the monthly average level of export credit for the financial year 1988-89. | |
| 1991/92 | April: With effect from July 27, 1991, banks are provided export credit refinance to the extent of 50 percent of the increase in export credit over the monthly average level of 1988-89 up to the monthly average level of 1989-90 plus 100 percent of the increase over the monthly average level of export credit in 1989-90. | April: Banks were advised to conserve their resources to fully meet the food procurement credit requirements estimated at Rs 11 billion in the first half of the year. Banks were advised to ensure that their incremental net nonfood credit (excluding export credit) to deposit ratio does not exceed 45 percent during 1991-92. |
| | | May: To restrain credit expansion, banks were advised to ensure that in the case of all accounts of borrowers with aggregate credit limits of Rs 1 crore and above, the effective drawing power under the limits for cash credit and inland bills for the period May 9, 1991 up to September 30, 1991, is limited to 100 percent of the peak levels of actual utilization during the period May 9-September 30 during the past three years or the cash credit limits sanctioned to the borrower stand on May 8, 1991, whichever is lower. |

| Year | Refinancing Limits | Bank Lending Guidelines |
| --- | --- | --- |
| | October: Effective October 17, 1991 food credit refinance, stand-by refinance, 182 days' treasury bill refinance, and discretionary refinance facilities were withdrawn. Banks were asked to repay outstanding refinance taken by them under these facilities by October 17, 1991. | October: Restriction on effective drawing power under aggregate credit units of Rs 1 crore and above came to be discontinued. Banks were directed to strictly adhere to 45 percent incremental nonfood credit deposit ratio and defaulters were made liable to reduction or total withdrawal of the refinance facilities.<br><br>Effective October 9, 1991, banks were advised to ensure that the credit outstanding did not increase on (a) loans for purchase of consumer durables, (b) personal loans against shares and debentures/bonds, (c) other nonpriority sector personal loans, and (d) real estate loans. |
| | November: Limit on export credit refinance was raised to 60 percent of the increase in export credit over the monthly average level of 1988-89 up to the monthly average level of 1989-90 plus 110 percent of increase in such credit over monthly average level of 1989-90. | |
| | December: The second tier of refinance was enlarged from 110 percent to 125 percent of increase in export credit over the monthly average level of 1989-90 effective from December 28, 1991. | |
| | January: With effect from January 4, 1992 separate refinance scheme for U.S. dollar denominated post shipment export credit was introduced at 9.5 percent. The limit for refinance was fixed at 133 1/3 percent of such credit. | |
| | March: With effect from March 2, 1992 interest rate on refinance on U.S. dollar denominated export credit was reduced to 7.5 percent. | |
| 1992-93 | April: Effective from April 22, 1992 the interest rate on refinance on U.S. dollar denominated export credit was further reduced to 5.5 percent. | April: Banks were advised to conserve their resources to fully meet net additional food credit requirement of Rs 800 crores and nonfood credit requirement of Rs 4,000 crores in April-September 1992. Incremental nonfood credit to deposit ratio was eliminated. Effective from April 22, 1992, restrictions on bank credit for purchases of consumer durables and other nonpriority sector personal loans was withdrawn. |
| | October: The second-tier limit on the export credit refinance was lowered from 125 to 110 percent. For U.S. dollar denominated post-shipment credit, the limit was lowered from 133 1/3 percent to 120 percent. | |

Table 35. India: Financial Assets of Financial Institutions and Banks, 1986/87-1989/90

(In billions of rupees at end of period)

| | 1986/87 | 1987/88 | 1988/89 | 1989/90 |
|---|---|---|---|---|
| I. Banks (1+2+3) 1/ | 1,279 | 1,472 | 1,765 | 2,055 |
| 1. All scheduled commercial banks | 1,225 | 1,406 | 1,685 | 1,964 |
| 2. Nonscheduled commercial banks | -- | -- | 1 | 1 |
| 3. State Cooperative Banks | 53 | 64 | 79 | 9 |
| II. Financial Institutions | 545 | 668 | 837 | 1,022 |
| 4. Term-lending institutions 2/ | 257 | 312 | 379 | 449 |
| 5. State level institutions | 53 | 62 | 72 | 79 |
| 6. Investment institutions 3/ | 225 | 280 | 370 | 477 |
| 7. Other institutions 4/ | 10 | 13 | 16 | 17 |
| III. Total (I+II) | 1,824 | 2,140 | 2,601 | 3,077 |
| IV. Percentage share of banks in total | 70.1 | 68.8 | 67.8 | 66.8 |

Source: Reserve Bank of India, Annual Report, 1990-91.

1/ Includes: cash in hand and balances with the RBI; assets with the banking system; investments; bank credit (total loans, cash-credits, and overdrafts and bills purchased and discounted); and dues from banks. Data are on a last Friday basis.
2/ Term-lending institutions include NABARD, ICICI, IDBI, IFCI, IRBI, and EXIM bank.
3/ Investment institutions include UTI, LIC, and GIC and subsidiaries. For 1990, data also include NHB.
4/ Other institutions include DICGC and ECGC.

Table 36. India: Balance of Payments, 1988/89-1991/92

(In millions of U.S. dollars)

| | 1988/89 | 1989/90 | 1990/91 | 1991/92 Prov. |
|---|---|---|---|---|
| Trade balance | -9,077 | -7,469 | -7,350 | -2,678 |
| Exports, f.o.b. 1/ | 14,262 | 16,945 | 18,491 | 18,135 |
| Imports, c.i.f. 2/ | 23,339 | 24,414 | 25,841 | 20,813 |
| Oil | 3,021 | 3,765 | 6,028 | 5,365 |
| Non-oil (customs) | 16,483 | 17,487 | 17,693 | 13,631 |
| Noncustoms | 3,835 | 3,162 | 2,120 | 1,817 |
| Invisibles balance (net) | 283 | -598 | -834 | -799 |
| Nonfactor services | 731 | 800 | 785 | 634 |
| Net investment income 3/ | -3,095 | -3,687 | -3640 | -4,118 |
| Private transfers | 2,647 | 2,289 | 2,021 | 2,685 |
| Current account | -8,794 | -8,067 | -8,184 | -3,477 |
| Capital account | 8,398 | 8,103 | 5,692 | 5,255 |
| Direct and portfolio investment | 298 | 341 | 112 | 200 |
| Net aid | 3,102 | 2,996 | 2,726 | 2,239 |
| Loans | 2,626 | 2,504 | 2,264 | 1,788 |
| Disbursements | 3,594 | 3,537 | 3,450 | 3,238 |
| Amortization | 968 | 1,033 | 1,181 | 1,450 |
| Grants | 476 | 492 | 457 | 451 |
| Commercial borrowing | 2,157 | 2,505 | 1,099 | 1,288 |
| Disbursements | 2,862 | 3,146 | 2,131 | 2,190 |
| Medium- and long-term | 2,609 | 2,229 | 1,531 | 2,895 |
| Short-term (net) | 253 | 917 | 600 | -705 |
| Amortization | 705 | 641 | 1,032 | 902 |
| Private nonguaranteed | -105 | -86 | 230 | -188 |
| Disbursements | 175 | 223 | 520 | 100 |
| Amortization | 280 | 309 | 290 | 288 |
| Nonresident deposits | 2,576 | 2,223 | 1,260 | -747 |
| Bilateral arrangement | 182 | -529 | -436 | 203 |
| Other (including errors and omissions) 4/ | 188 | 653 | 701 | 2,260 |
| Overall balance | -397 | 37 | -2,492 | 1,778 |
| Monetary movements | 397 | -37 | 2,492 | -1,778 |
| Net use of Fund credit | -1,070 | -837 | 1,214 | 781 |
| Official reserves (increase-) | 1,467 | 836 | 1,278 | -3,574 |
| Other exceptional finance 5/ | -- | -- | -- | 1,015 |
| Memorandum items: | | | | |
| Current account/GDP (in percent) | -3.2 | -3.0 | -2.8 | -1.4 |
| Gross reserves ($ bn.) | 5.4 | 4.6 | 2.8 | 6.3 |
| (In months of imports) | 2.8 | 2.3 | 1.3 | 3.6 |

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

1/ Excluding crude oil exports.
2/ Including net crude oil imports.
3/ Includes accrued interest on nonresident deposits.
4/ Also includes valuation adjustment on non-U.S. dollar reserves.
5/ World Bank, Asian Development Bank, and bilateral.

Table 37. India: Official Reserves, 1987/88-June 1992 1/

(In millions of U.S. dollars)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 | 1992 June 30 |
|---|---|---|---|---|---|---|
| Gold 1/ | 509 | 473 | 487 | 504 | 542 | 565 |
| SDR holdings | 97 | 103 | 107 | 102 | 90 | 115 |
| Reserve position in IMF | 676 | 630 | 633 | -- | 1 | 1 |
| Foreign exchange | 5,618 | 4,226 | 3,368 | 2,236 | 5,631 | 6,221 |
| Gross reserves | 6,899 | 5,432 | 4,596 | 2,842 | 6,264 | 6,902 |
| Use of Fund credit | 3,653 | 2,364 | 1,493 | 2,622 | 3,451 | 3,522 |
| Net reserves 2/ | 3,246 | 3,068 | 3,102 | 220 | 2,813 | 3,380 |

Sources: IMF, International Financial Statistics; and data provided by the Indian authorities.

1/ Gold valued at SDR 35 per troy ounce.
2/ Defined as gross reserves minus use of Fund credit.

Table 38. India: Principal Exports, 1987/88-1991/92

(Value in millions of U.S. dollars, volume in thousands of metric tons)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 Prel. |
|---|---|---|---|---|---|
| Tea | | | | | |
| Value | 458 | 421 | 543 | 596 | 459 |
| Volume | 205 | 194 | 209 | 202 | 201 |
| Coffee | | | | | |
| Value | 194 | 203 | 206 | 141 | 127 |
| Volume | 89 | 84 | 115 | 86 | 91 |
| Oil cakes | | | | | |
| Value | 140 | 283 | 328 | 339 | 377 |
| Volume | 753 | 1,609 | 2,205 | 2,411 | 2,685 |
| Cashew kernels | | | | | |
| Value | 243 | 191 | 221 | 249 | 273 |
| Volume | 42 | 37 | 48 | 55 | 69 |
| Rice | | | | | |
| Value | 261 | 229 | 256 | 257 | 306 |
| Volume | 389 | 350 | 422 | 527 | 711 |
| Marine products | | | | | |
| Value | 411 | 435 | 412 | 535 | 584 |
| Volume | 98 | 116 | 125 | 158 | 180 |
| Iron ore | | | | | |
| Value | 427 | 466 | 557 | 585 | 581 |
| Volume | 29 | 33 | 36 | 32 | 29 |
| Tobacco (unmanufactured) | | | | | |
| Value | 104 | 87 | 105 | 108 | 127 |
| Volume | 72 | 56 | 71 | 67 | 68 |
| Spices | | | | | |
| Value | 241 | 188 | 148 | 130 | 151 |
| Volume | 86 | 100 | 98 | 100 | 149 |
| Textiles and garments | 2,487 | 2,492 | 3,148 | 4,274 | 4,158 |
| Jute goods | 186 | 162 | 179 | 166 | 157 |
| Leather and leather goods | 965 | 1,051 | 1,171 | 1,430 | 1,248 |
| Engineering goods | 1,167 | 1,596 | 1,971 | 2,161 | 2,232 |
| Gems and jewelry | 2,015 | 3,034 | 3,178 | 2,924 | 2,738 |
| Chemicals | 635 | 1,060 | 1,759 | 1,777 | 1,937 |
| Oil products | | | | | |
| Value | 500 | 349 | 418 | 523 | 415 |
| Volume 1/ | 3.4 | 2.3 | 2.6 | ... | ... |
| Other goods | 1,652 | 1,729 | 2,013 | 1,948 | 1,970 |
| Total exports (customs basis) | 12,086 | 13,976 | 16,613 | 18,143 | 17,840 |

Sources: Government of India, Economic Survey; and data provided by the Indian authorities.

1/ In millions of metric tons.

Table 39. India: Direction of Trade, 1987/88-1991/92 1/

(In millions of U.S. dollars)

| | 1987/88 | | 1988/89 | | 1989/90 | | 1990/91 | | 1991/92 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Exports | Imports | Exports | Imports | Exports | Imports | Exports | Imports | Exports | Imports |
| United States | 2,242 | 1,544 | 2,581 | 2,208 | 2,685 | 2,556 | 2,673 | 2,919 | 2,920 | 1,987 |
| European Community | 3,033 | 5,706 | 3,402 | 6,220 | 4,145 | 7,043 | 4,977 | 7,089 | 4,810 | 5,668 |
| Of which: | | | | | | | | | | |
| France | 292 | 615 | 295 | 557 | 383 | 967 | 427 | 727 | 423 | 619 |
| Germany, (formerly Federal Republic of) | 817 | 1,665 | 854 | 1,698 | 1,067 | 1,650 | 1,413 | 1,938 | 1,259 | 1,561 |
| United Kingdom | 783 | 1,410 | 796 | 1,656 | 961 | 1,785 | 1,183 | 1,627 | 1,137 | 1,202 |
| Japan | 1,244 | 1,639 | 1,488 | 1,817 | 1,637 | 1,692 | 1,686 | 1,809 | 1,642 | 1,367 |
| Oil exporting countries 2/ | 745 | 2,277 | 823 | 2,610 | 1,109 | 3,045 | 1,144 | 4,334 | 1,731 | 4,326 |
| Of which: | | | | | | | | | | |
| Iran, Islamic Republic of | 107 | 111 | 61 | 89 | 79 | 234 | 78 | 567 | 121 | 582 |
| Iraq | 14 | 471 | 37 | 134 | 76 | 277 | 24 | 276 | -- | 2 |
| Saudi Arabia | 214 | 590 | 223 | 1,308 | 257 | 869 | 233 | 1,615 | 351 | 1,451 |
| Eastern Europe | 2,000 | 1,639 | 2,317 | 1,345 | 3,202 | 1,794 | 3,253 | 1,884 | 1,919 | 985 |
| Of which: U.S.S.R. | 1,514 | 1,240 | 1,802 | 869 | 2,678 | 1,223 | 2,935 | 1,422 | 1,609 | 722 |
| Other countries | 2,821 | 4,347 | 3,364 | 5,302 | 3,835 | 5,121 | 4,410 | 6,038 | 4,818 | 5,062 |
| Total | 12,086 | 17,153 | 13,976 | 19,504 | 16,613 | 21,252 | 18,143 | 24,073 | 17,840 | 19,395 |

Source: Based on provisional data provided by the Directorate General of Commercial Intelligence and Statistics.

1/ Customs basis data.
2/ UNCTAD classification of major petroleum exporters.

Table 40. India: Principal Imports, 1987/88-1991/92

(Value in millions of U.S. dollars, volume in millions of metric tons)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 (Prov.) |
|---|---|---|---|---|---|
| Edible oils | | | | | |
| Value | 747 | 504 | 127 | 180 | 97 |
| Volume | 1.9 | 1.1 | 0.3 | 0.5 | 0.2 |
| Fertilizers | | | | | |
| Value | 392 | 645 | 1,066 | 946 | 916 |
| Volume | 4.4 | 5.4 | 7.1 | 7.1 | 6.7 |
| Iron and steel | | | | | |
| Value | 1,018 | 1,335 | 1,383 | 1,231 | 874 |
| Volume | 2.3 | 2.2 | 3.6 | 2.8 | 2.2 |
| Foodgrains | | | | | |
| Value | 51 | 535 | 227 | 348 | 160 |
| Volume | 0.1 | 2.8 | 0.8 | 1.0 | 0.5 |
| Petroleum and petroleum products | | | | | |
| Crude oil | | | | | |
| Value | 2,363 | 1,951 | 2,510 | 3,247 | 3,016 |
| Volume (million barrels) | 17.7 | 17.8 | 19.5 | 20.8 | 23.6 |
| Petroleum products | | | | | |
| Value | 750 | 1,071 | 1,255 | 2,532 | 1,998 |
| Volume (million barrels) | 3.9 | 6.3 | 7.1 | 8.5 | 9.2 |
| Nonferrous metals | 493 | 536 | 752 | 618 | 341 |
| Gems | 1,556 | 2,194 | 2,546 | 2,080 | 1,956 |
| Chemicals | 834 | 1,308 | 1,281 | 1,378 | 1,429 |
| Machinery and transport equipment | 3,608 | 3,584 | 4,188 | 4,293 | 2,733 |
| Other goods | 5,340 | 5,841 | 5,917 | 7,220 | 5,875 |
| Total imports, c.i.f. (customs basis) | 17,152 | 19,504 | 21,252 | 24,073 | 19,395 |

Sources: Government of India, Economic Survey; data provided by the Indian authorities; and staff estimates.

Table 41. India: Nonresident Deposits, 1987/88-1991/92

(In millions of U.S. dollars)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 | Apr.-June 1992 |
|---|---|---|---|---|---|---|
| | | | (Outstanding balances at end of period) | | | |
| Foreign currency non-resident accounts | 3,827 | 5,275 | 6,586 | 6,838 | 5,256 | 5,060 |
| U.S. dollars | (3,410) | (4,245) | (5,409) | (5,754) | (3,978) | (3,510) |
| Pounds sterling | (417) | (343) | (195) | (154) | (774) | (977) |
| Deutsche mark | | (448) | (598) | (509) | (173) | (143) |
| Japanese yen | | (239) | (384) | (421) | (331) | (430) |
| Nonresident external rupee accounts 1/ | 3,942 | 3,774 | 3,777 | 3,619 | 2,591 | 2,713 |
| Total | 7,770 | 9,049 | 10,363 | 10,457 | 7,847 | 7,773 |
| | | | (Inflows excluding accrued interest) | | | |
| Foreign currency non-resident accounts | 1,051 | 1,540 | 1,309 | 143 | -1,627 | -309 |
| Nonresident external rupee accounts | 232 | 169 | -3 | -32 | -20 | -31 |
| Total | 1,283 | 1,709 | 1,306 | 111 | -1,647 | -340 |
| Memorandum items: | | | | | | |
| Interest rates (in percent per annum) | | | | | | |
| Rupee accounts | | | | | | |
| 1-2 years | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| 2-3 years | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| 3-5 years | 12.0 | 12.0 | 12.0 | 12.0 | 13.0 | 13.0 |
| over 5 years | 13.0 | 13.0 | 13.0 | 13.0 | 14.0 | 14.0 |
| Foreign currency non-resident accounts 2/ | | US$ | £ | DM | ¥en | |
| 1-2 years | | 5.25 | 11.00 | 10.50 | 6.00 | |
| 2-3 years | | 6.25 | 11.00 | 10.50 | 6.00 | |
| 3 years | | 7.00 | 11.00 | 10.50 | 6.00 | |

Source: Data provided by the Indian authorities.

1/ The data on nonresident external rupee accounts include accrued interest.
2/ Effective July 13, 1992.

Table 42. India: External Debt, 1990/91-1991/92 1/ 2/

(In millions of U.S. dollars; end of period)

| | 1990/91 | 1991/92 | 1991/92 In Percent of Total Convertible Currency Debt |
|---|---|---|---|
| Convertible currency | | | |
| Medium and long term | | | |
| Multilateral | 20,900 | 23,029 | 33.5 |
| Government borrowing | 19,887 | 21,590 | 31.4 |
| Concessional | 13,377 | 14,314 | 20.8 |
| Of which: IDA | (13,052) | (13,968) | (20.3) |
| Nonconcessional | 6,510 | 7,276 | 10.6 |
| Of which: IBRD | (6,293) | (6,738) | (9.8) |
| Nongovernment borrowing | 1,013 | 1,439 | 2.1 |
| Bilateral | 14,195 | 15,423 | 22.5 |
| Government borrowing | | | |
| Concessional | 11,963 | 13,101 | 19.1 |
| Nongovernment borrowing | 2,232 | 2,322 | 3.4 |
| IMF | 2,623 | 3,451 | 5.0 |
| Export credit | 2,356 | 2,375 | 3.5 |
| Commercial borrowing | 10,209 | 10,073 | 14.7 |
| Of which: | | | |
| Commercial bank loans | (6,831) | (6,704) | (9.8) |
| Nonresident Indian deposits | 10,584 3/ | 7,869 3/ | 11.5 |
| Other | 3,936 | 3,259 | 4.7 |
| Total medium and long term | 64,803 | 65,479 | 95.4 |
| Short term | 2,267 | 3,191 | 4.6 |
| Total debt | 67,070 | 68,670 | 100.0 |
| (in percent of GDP) | (22.7) | (27.2) | (...) |
| Nonconvertible currency 2/ | 15,010 | 13,780 | ... |
| Total debt 2/ | 82,080 | 82,450 | ... |
| (in percent of GDP) | (27.8) | (32.7) | (...) |

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

1/ This table represents the beginning of a revised classification system. Some outstanding problems of classification still exist, so some numbers, including the totals, are provisional and, therefore, subject to change.

2/ Ruble debt has been converted at the exchange rate provided under the protocol between India and the former Soviet Union using the official U.S. dollar/rupee rate of exchange. Negotiations are currently under way on the exchange rate to be used for converting this ruble debt.

3/ Includes NRI deposits of less than one-year maturity of $3,572 million in 1990/91 and $2,572 million in 1991/92.

Table 43. India: Trade and Balances Under Bilateral Arrangements, 1987/88-1991/92

(In millions of U.S. dollars)

| | 1987/88 | 1988/89 | 1989/90 | 1990/91 | 1991/92 |
|---|---|---|---|---|---|
| Exports | | | | | |
| Czech and Slovak Federal Republic | 80 | 118 | 143 | 81 | 143 |
| German Democratic Republic | 82 | 117 | 125 | -- | -- |
| Poland | 155 | 93 | 73 | 96 | 80 |
| Romania | 53 | 24 | 71 | 53 | 12 |
| U.S.S.R./CIS | 1,522 | 1,669 | 2,590 | 2,935 | 1,609 |
| Total | 1,891 | 2,021 | 3,003 | 3,165 | 1,844 |
| Imports | | | | | |
| Czech and Slovak Federal Republic | 53 | 81 | 113 | 149 | 46 |
| German Democratic Republic | 72 | 85 | 114 | -- | -- |
| Poland | 44 | 42 | 83 | 81 | 79 |
| Romania | 45 | 46 | 62 | 28 | 25 |
| U.S.S.R./CIS | 1,241 | 805 | 1,183 | 1,422 | 722 |
| Total | 1,455 | 1,059 | 1,555 | 1,680 | 872 |

Source: Data provided by the Indian authorities.