FOR AGENDA

SM/86/54

CONTAINS CONFIDENTIAL INFORMATION

March 6, 1986

To: Members of the Executive Board

From: The Secretary

Subject: India - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with India which is tentatively scheduled for discussion on Monday, April 28, 1986. A draft decision appears on page 25.

Mr. Neiss (ext. 7604) or Mr. Browne (ext. 7329) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

INDIA

Staff Report for the 1986 Article IV Consultation 1/

Prepared by the Staff Representatives for the
1986 Article IV Consultation with India

Approved by Tun Thin and Eduard Brau

March 3, 1986

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1/ Under normal practice, this would be considered as the 1985 Article IV consultation. It is attributed to 1986 in this case because the last Article IV consultation discussions were held in November 1984 and the Board concluded the 1985 Article IV consultation on February 22, 1985.

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I. Introduction

The 1986 Article IV consultation discussions with India were held in New Delhi and Bombay during December 2-13, 1985. The Indian representatives included Secretary of Finance Venkitaramanan and Chief Economic Advisor Bimal Jalan of the Department of Economic Affairs; Deputy Chairman of the Planning Commission Manmohan Singh; Special Secretary to the Prime Minister Montek Singh Ahluwalia; Secretary of Agriculture Subramaniam; Secretary of Commerce Kumar; Secretary of Industry Srivastava; and Governor Malhotra and Deputy Governor Rangarajan of the Reserve Bank. Meetings were held with officials of the Ministries of Finance, Agriculture, Petroleum, Commerce and Industry, the Planning Commission, and the Reserve Bank and with private sector exporters and industrialists. The staff representatives were Messrs. Neiss (Head), Browne, Schulz and Tiwari (all ASD), Hemming (FAD) and Hicklin (ETR) with Miss Allen (ASD) as secretary. Mr. Tun Thin joined the mission for the second week of the discussions. Mr. Bussink (IBRD, New Delhi) participated in the work of the mission. Mr. Sengupta, Executive Director for India, attended some of the meetings as an observer.

India continues to avail itself of the transitional arrangements under the provisions of Article XIV and maintains a bilateral payments agreement with a Fund member (Romania) that is subject to approval under Article VIII. The restrictions on the making of payments and transfers for current international transactions are described in Recent Economic Developments, Chapter VI.

II. Recent Developments and Short-Term Prospects

1. Background

During the 1980s, India's economic policy has aimed at securing a higher rate of economic growth while maintaining medium-term balance of payments viability. Key elements of the strategy--which were supported by an extended arrangement with the Fund in the period 1981-84--included measures to increase agricultural and industrial supplies and thereby stimulate exports and import substitution, and an increase in public sector resource mobilization. Financial policies provided for cautious demand management to encourage high rates of domestic savings and low rates of inflation. Structural reforms, particularly directed toward the reduction of administrative regulation in the areas of industrial and trade policies, were aimed at making the domestic economy more efficient.

The important objectives of the EFF program relating to higher economic growth, reduced inflation, and the avoidance of a deterioration

in the current account balance had been largely achieved. 1/ However, export performance had been disappointing both from a shorter- and longer-term perspective. This development could be attributed only in part to the weakness in overseas demand, and reflected remaining structural weaknesses in the economy. At the time of the last consultation discussion, Executive Directors encouraged the authorities to go further in their policy of import liberalization, industrial deregulation, and public sector resource mobilization to enhance the efficiency of the economy and strengthen its export potential. In this respect, Directors stressed the importance of a more liberal regulatory environment, in particular in the areas of industrial licensing and import control, allowing industry greater access to modern technology and establishing conditions that afforded adequate incentives to improve industrial efficiency.

The major policy initiatives that have been taken during the past year to carry forward the process of economic liberalization and structural reform are in the direction recommended by the Executive Board in concluding the 1985 Article IV consultation discussions with India. The measures have concentrated on reducing administrative controls over industrial production and investment, import liberalization, tax reform, and greater financial discipline in the public sector. The primary objective is to create an environment for faster growth with balance of payments viability during the Seventh Plan (1985/86-1989/90). A substantially improved industrial and export performance and a strengthened public sector resource mobilization effort are seen as crucial elements in this endeavor.

2. The Sixth Plan outcome

During the Sixth Plan (1980/81-1984/85), the annual average rate of growth of real GDP was 5.5 percent. 2/ However, if adjustment is made for the drought-affected base year 1979/80, the underlying rate of growth was about 4 percent, in line with the long-term historical trend (Chart 1). A key development was the expansion in agricultural output, particularly in the foodgrain sector, owing to remunerative prices for farmers, enlargement of the irrigated area, and increased use of fertilizer and high-yielding seeds. The improved availability of agricultural supplies, coupled with appropriate demand management policies and lower import prices, helped to reduce the rate of inflation, as measured by the wholesale price index, from 18 percent in 1980/81 to 7 percent in 1984/85.

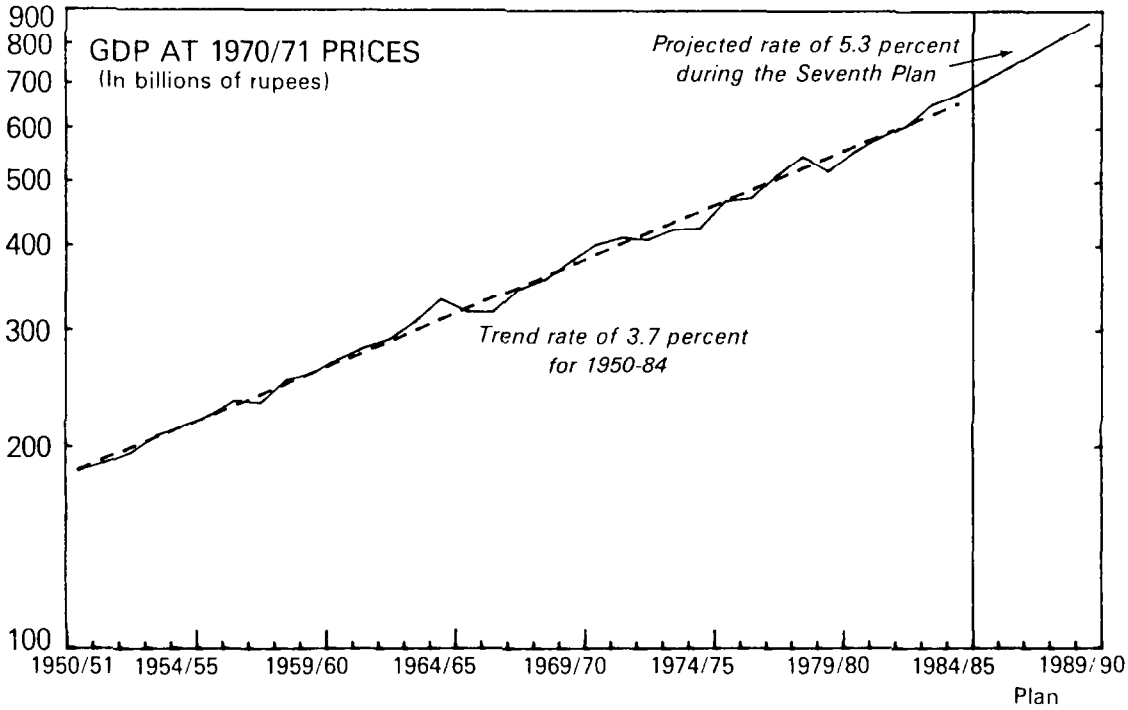
1/ Performance under the extended arrangement was reviewed in India--Staff Report for the 1985 Article IV Consultation (SM/85/27, 1/25/85).

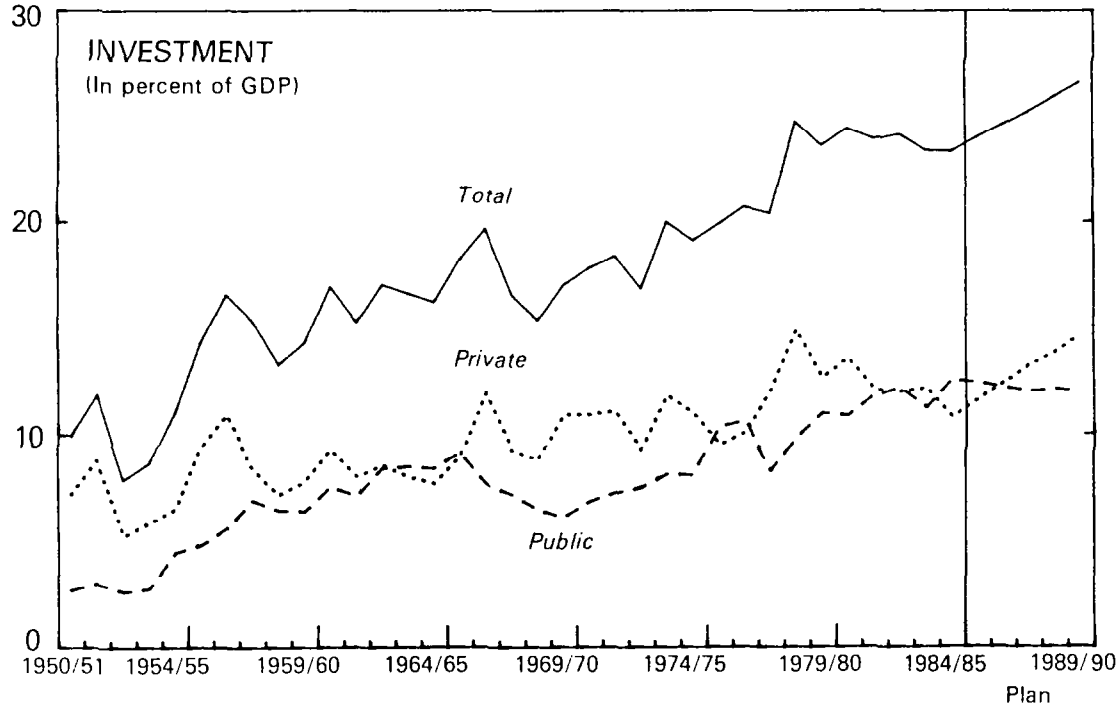
2/ All macroeconomic statistics are reported on a fiscal-year basis (April-March) unless otherwise stated.

CHART 1

INDIA

GROWTH AND INVESTMENT, 1950/51-1989/90





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

Constraints on industrial output and efficiency were partially alleviated. Increased infrastructural investment helped to improve the supply of railway wagons, coal and electric power. Energy supplies were augmented by the rapid growth of crude oil production, which enabled about 70 percent of the demand for oil and petroleum products to be met from domestic sources in 1984/85, compared with 30 percent in 1980/81. More liberal import policies were implemented for capital goods and industrial raw materials. Nevertheless, the utilization of industrial capacity remained low, hampered by administrative controls, continued shortages of steel and other key inputs, and inefficiencies in resource use in many areas. Consequently, the growth of value added in industry averaged less than 5 percent annually.

Financial policies were oriented toward generating higher domestic savings to support a larger investment program. While private sector savings grew strongly, assisted by substantially positive and rising real rates of interest, public sector savings declined in relation to GDP. The Central and State Governments mobilized substantial resources through new revenue measures and the public enterprises in the oil sector achieved large surpluses. However, Central Government current expenditure grew rapidly, especially on food and fertilizer subsidies, and the non-oil public enterprises taken together recorded losses, despite some improvements in the flexibility of pricing policies. The overall public sector deficit increased in relation to GDP (Appendix Table 1), and substantial recourse was made to the banking system. The pace of monetary expansion therefore remained high (Appendix Table 2). Nevertheless, inflation remained below the rate implied by the growth of monetary aggregates because of the short-term effects of greater supply availability and because longer-term deposits, which are part of broad money but represent a form of savings, grew at a faster rate than total broad money.

The external current account deficit averaged 1.6 percent of GDP during the Sixth Plan (Appendix Table 3). The average annual volume growth of imports slowed to 3 percent, assisted by the large increase in domestic oil production, and remittances, mainly from the Middle East, grew rapidly. Export performance was poor, with an average annual volume growth of less than 2 percent (Chart 2). 1/ This not only reflected the slower growth of world trade associated with the recession in the developed countries during 1980-82, and, subsequently, low demand in Eastern European and oil producing country markets, but also a sizable loss of market shares because of supply bottlenecks and weakened competitiveness.

Concessional capital flows increased substantially between the Fifth and Sixth Plans following large rises in aid commitments by

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1/ Trade data for recent years are still tentative, in particular volume estimates.

multilateral and bilateral donors. Inflows of nonresident Indian deposits were buoyant, in response to attractive interest rates. Nevertheless, despite large drawings from the Fund during 1981-84, external commercial borrowing increased. High inflows enabled gross external reserves to rise from the equivalent of less than four months of imports in 1981/82 to almost six months of imports in 1984/85. With a hardening of terms on concessional flows as well as higher interest rates on an increased volume of commercial loans, the external debt service ratio rose from 9 percent in 1980/81 to 16 percent in 1984/85. The real effective exchange rate index, after having appreciated by 8 percent in 1979/80, remained approximately unchanged in the following five years.

Table 1. India: Economic Indicators, 1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84	1984/85
		(Change in percent)			
Real GDP	6.8	5.2	4.2	7.6	3.6
Wholesale prices	18.2	9.3	2.6	9.5	7.1
Export volume	-0.4	2.8	-2.4	3.4	3.1
Real effective exchange rate (end of period)	5.9	-5.5	1.9	-0.1	-2.9
Broad money (end of period)	18.3	13.1	16.5	17.8	18.5
		(As percent of GDP)			
External current account deficit	1.7	1.8	1.6	1.5	1.2
Central Government deficit	6.5	5.8	7.6	7.1	8.3
Central and State Governments deficit	9.3	8.8	10.1	10.0	11.4

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

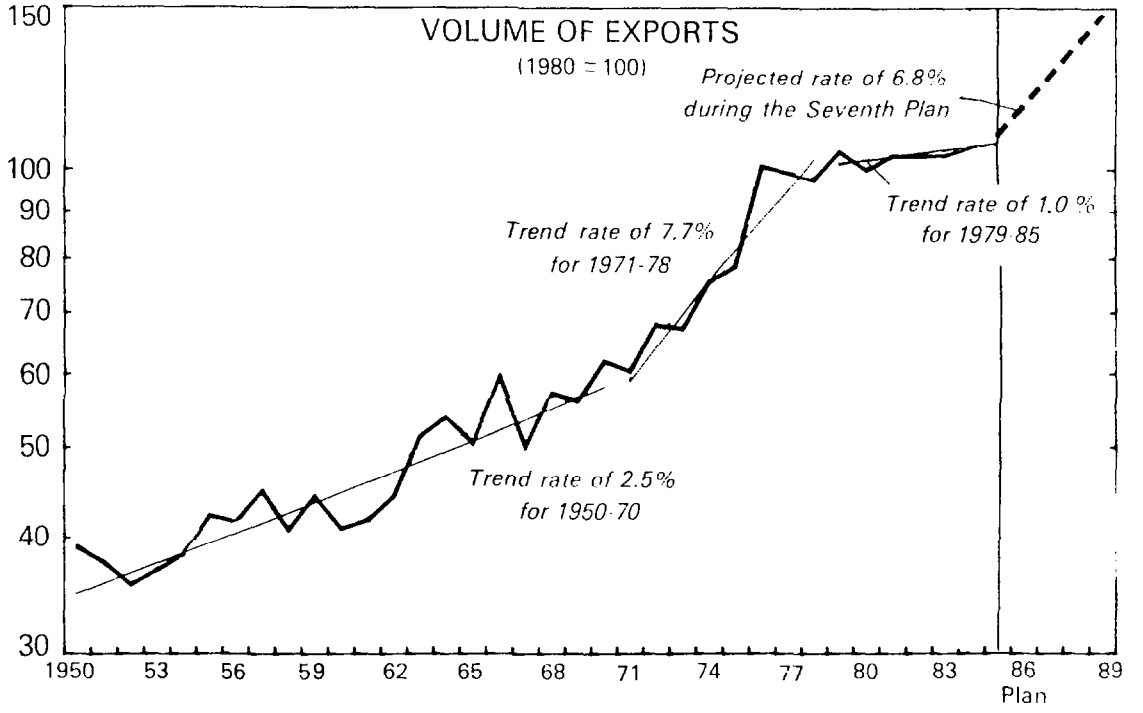
3. Developments in 1985/86

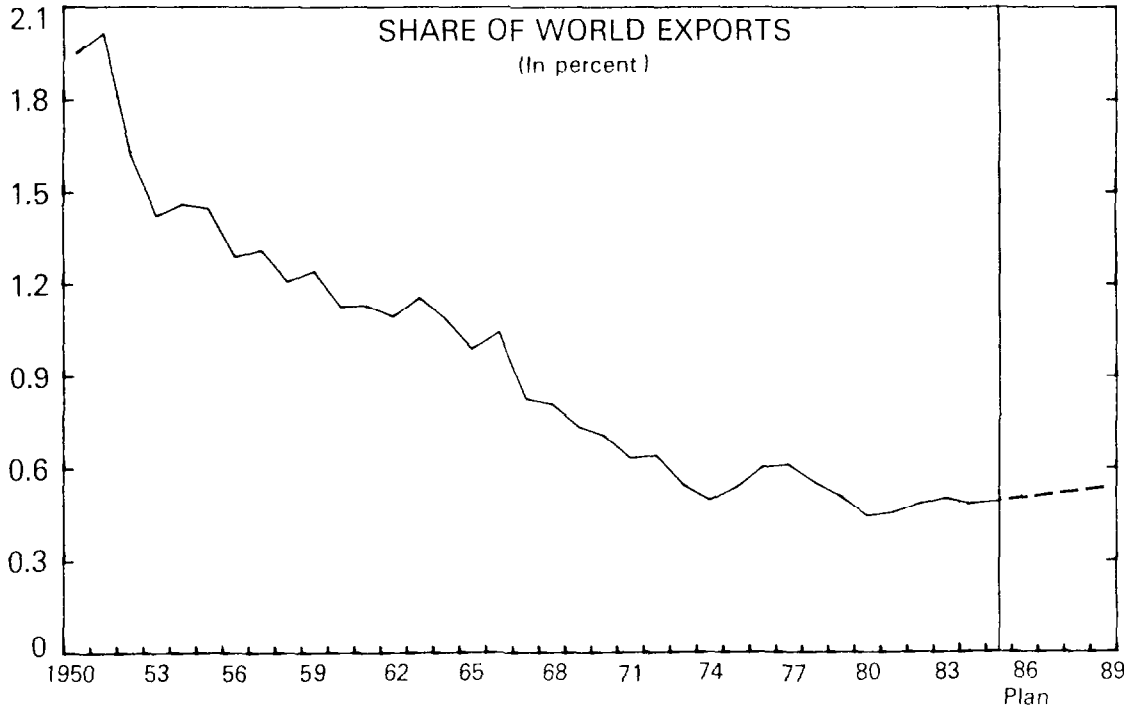
At the time of the consultation discussions, only limited information on 1985/86 was available. It indicates that the performance in terms of output and inflation remains satisfactory. The rate of growth of real GDP is projected at 4-5 percent, somewhat higher than that achieved in 1984/85. Agricultural output is estimated to increase by

CHART 2

INDIA

EXPORT PERFORMANCE, 1950-89





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

2-3 percent, with the foodgrain harvest at close to record levels for the third successive year. Plentiful foodgrain stocks--together with large imports of edible oil, and sugar--helped to limit the overall rate of price increase to less than 6 percent in the year to December 1985. Industrial output appears to have accelerated somewhat, assisted by the gradual elimination of supply bottlenecks in recent years.

The Central Government deficit was budgeted at 8.4 percent of GDP in 1985/86, about the same as the outcome in 1984/85. The authorities believe that the deficit will exceed the budget estimate by about 1 percent of GDP (Chart 3). Additional spending approved in the supplementary budgets of July and December 1985, including further rises in food and fertilizer subsidies, larger allocations to public enterprises, and higher loans to State Governments (see below) will be partly offset by measures to reduce non-Plan expenditure by 5 percent and improved revenue collection procedures, as well as the favorable response to lower direct tax rates introduced in the budget. During the first seven months of the year, personal income tax receipts were 25 percent and customs and excise duties receipts 22 percent higher than in the corresponding period of 1984/85. The staff team pointed out that to prevent a further increase in the deficit through expenditure slippages, a traditional weakness in the fiscal process, strict expenditure controls were required. Even if, unlike in 1984/85, expenditures were controlled effectively during the last months of the fiscal year, the projected deficit would be at an historically high level.

The consolidated deficit of the Central and State Governments is projected at 11 percent of GDP, only slightly above the original estimate, because States used the increased loans from the Central Government to repay their overdrafts with the Reserve Bank. After these repayments, overdrafts are only to be incurred for very short periods, and if they are not repaid, the Reserve Bank is empowered to stop all credits. The authorities expect that, unlike in the past, this arrangement will impose financial discipline on State Governments. Preliminary and incomplete information on the operations of the public enterprises indicates some improvement in their overall financial position during this year. Rates of capacity utilization are reported to have improved in the fertilizer, steel and electricity generating sectors. In early 1986, a wide range of administered price increases were implemented, including 15 percent for coal, 3-7 percent for selected petroleum products, 12 percent for cooking gas, 10 percent for fertilizer, and 7-10 percent for foodgrain sold by the public distribution system. However, the state electricity boards continue to experience sizable operating losses that impose a considerable burden on several state budgets.

The financing of the public sector remains a major source of monetary expansion (Chart 4). In order to help meet the Government's financing needs, the statutory liquidity requirement--that proportion of

deposits which commercial banks must hold in the form of approved securities--was increased by 1 percentage point to 37 percent in mid-1985. However, the Government has also attracted considerable funds from outside the banking system through issues of national saving certificates, and the introduction of higher yields on long-term government securities. The growth of total liquidity remained relatively high through mid-1985, but has slowed in recent months. It is projected at 15-16 percent during the year ending March 1986. This rate of increase would be more in line with that needed to satisfy the demand for money on the basis of past relationships than was the case in the two preceding years. 1/

Banks curtailed lending to the commercial sector, in order to conform with the Reserve Bank's directive for the April-September 1985 slack season to reverse the decline in their liquidity positions. With buoyant conditions in the capital market following the raising of the interest rate ceiling on debentures to 15 percent and the optimism engendered by the tax and industrial reform measures in the 1985/86 budget, private corporations were able to obtain substantially larger amounts of finance than in the past. Consequently, the Government felt able to restrict the supply of funds to the Industrial Development Bank of India and other specialized financial institutions. Moreover, in view of the improved price performance, the authorities permitted a slight easing of monetary policy for the October 1985-April 1986 busy season. There was, however, agreement with the staff team that the trend of lower monetary expansion should continue in order to prevent the emergence of excess liquidity.

The external current account deficit is projected at 1.5 percent of GDP in 1985/86, compared with the unusually low 1.2 percent of GDP in 1984/85 (Chart 5). The trade deficit widened markedly in the early months of the financial year because of a decline in exports and temporarily large imports of petroleum, fertilizer and certain agricultural commodities, reflecting government purchases to ensure plentiful supplies. However, a smaller deficit is expected in the second half year. Export volume for the year was projected at 3 percent, at the time of the discussions. More recent data indicate that the rate could be lower. The growth of the leading nontraditional goods--particularly engineering goods, gems and jewelry, and clothing--remains weak because of low foreign demand. Moreover, traditional exports are depressed because of lower prices for several commodities, notably tea and jute. Domestic sales remained generally more profitable than export sales. Other factors influencing export performance are the high cost of inputs, the absence of modern technology, the inability to exploit economies of scale, and deficiencies in quality control and product design. Import volume growth for the year is projected at 9 percent,

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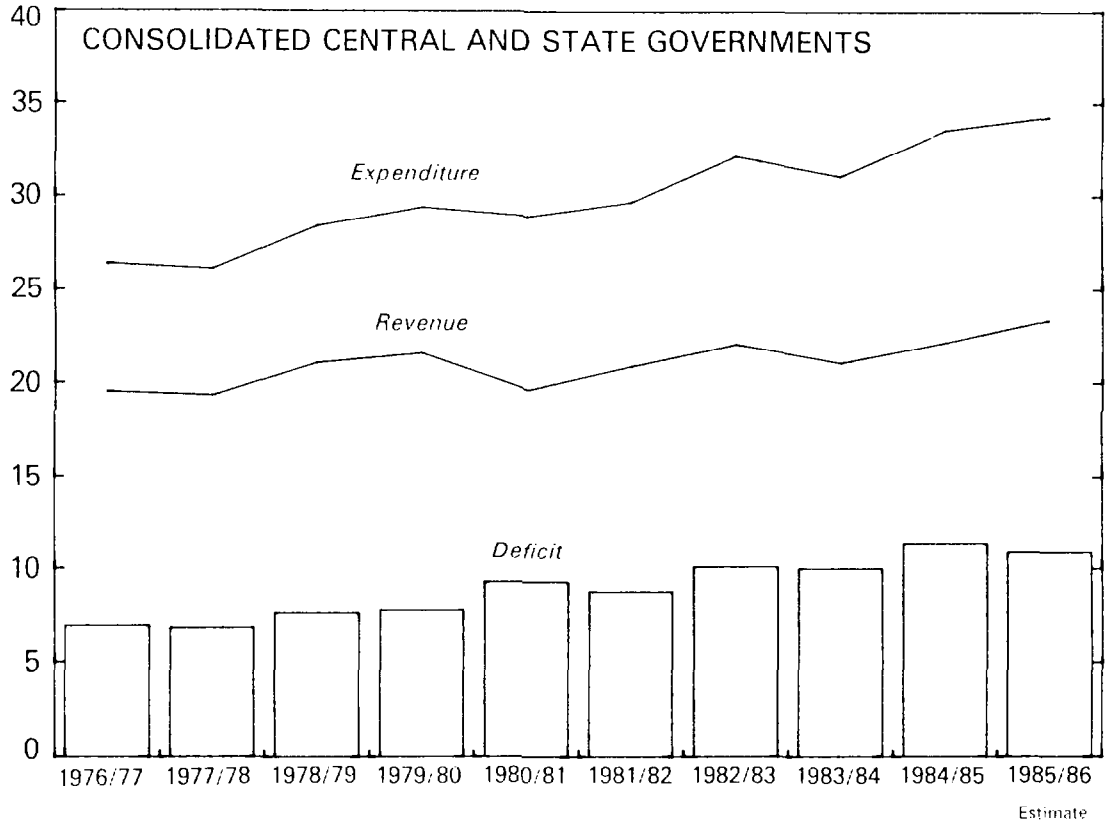
1/ Estimates of the demand for money in India yield an income elasticity for total liquidity of 1.7 to 2.0.

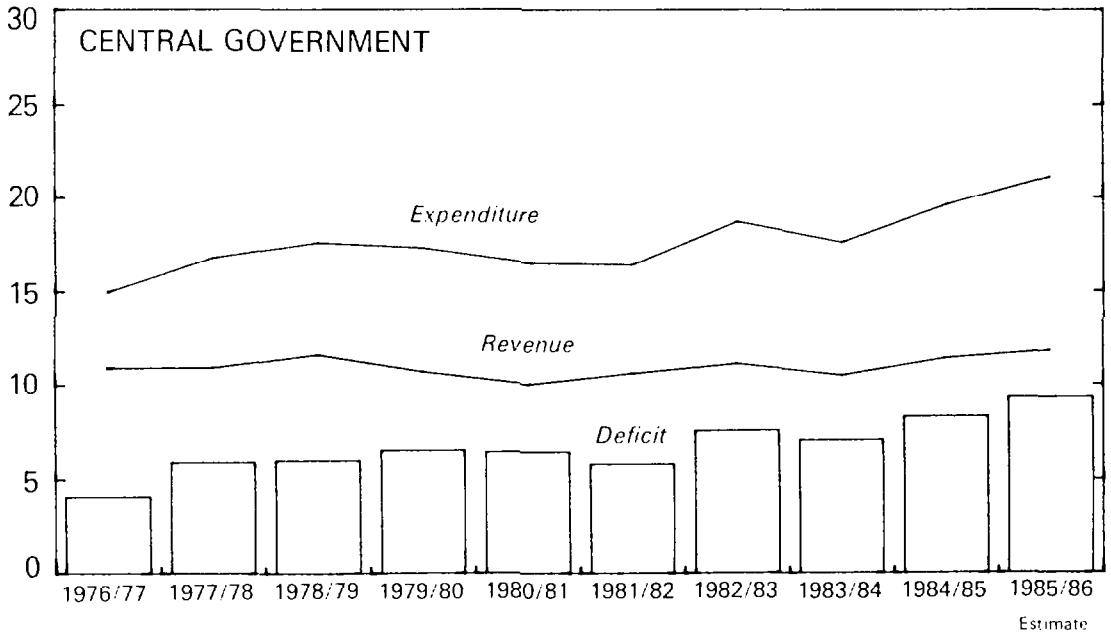
CHART 3

INDIA

BUDGETARY DEVELOPMENTS, 1976/77-1985/86

(In percent of GDP)



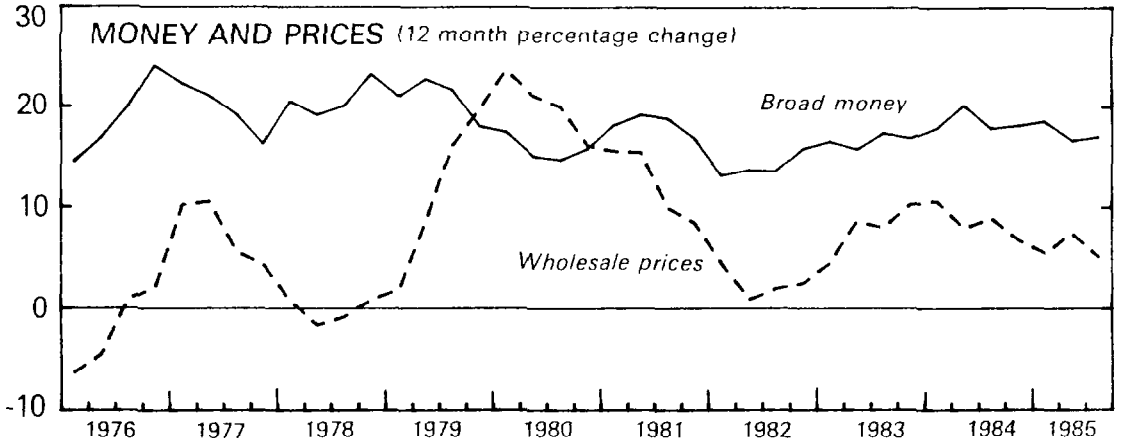


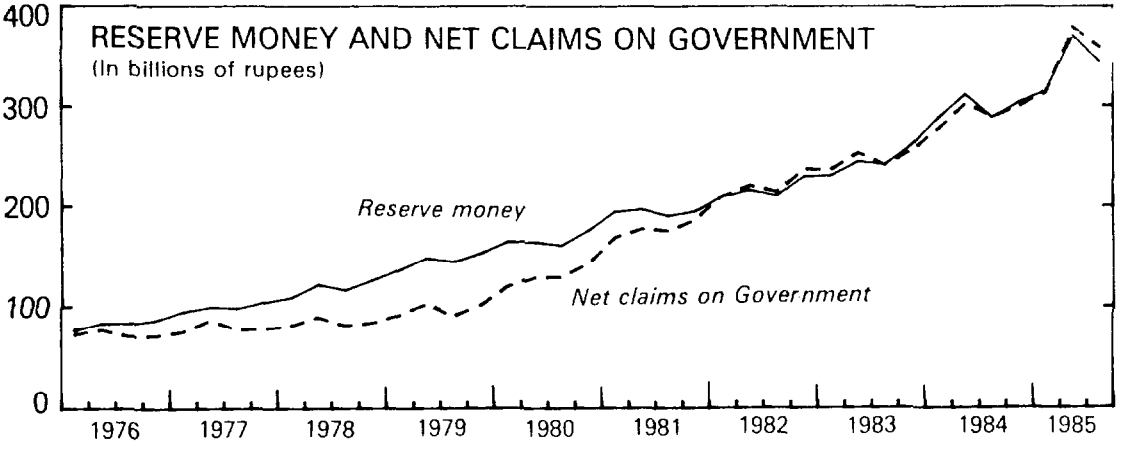
Sources: Data supplied by the Indian authorities, and staff estimates.

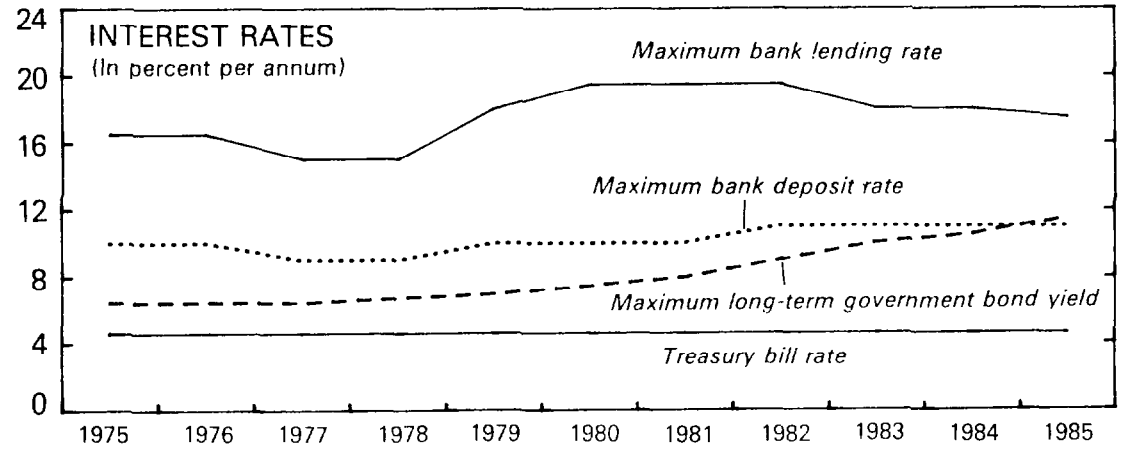
CHART 4

INDIA

MONETARY DEVELOPMENTS, 1976-85







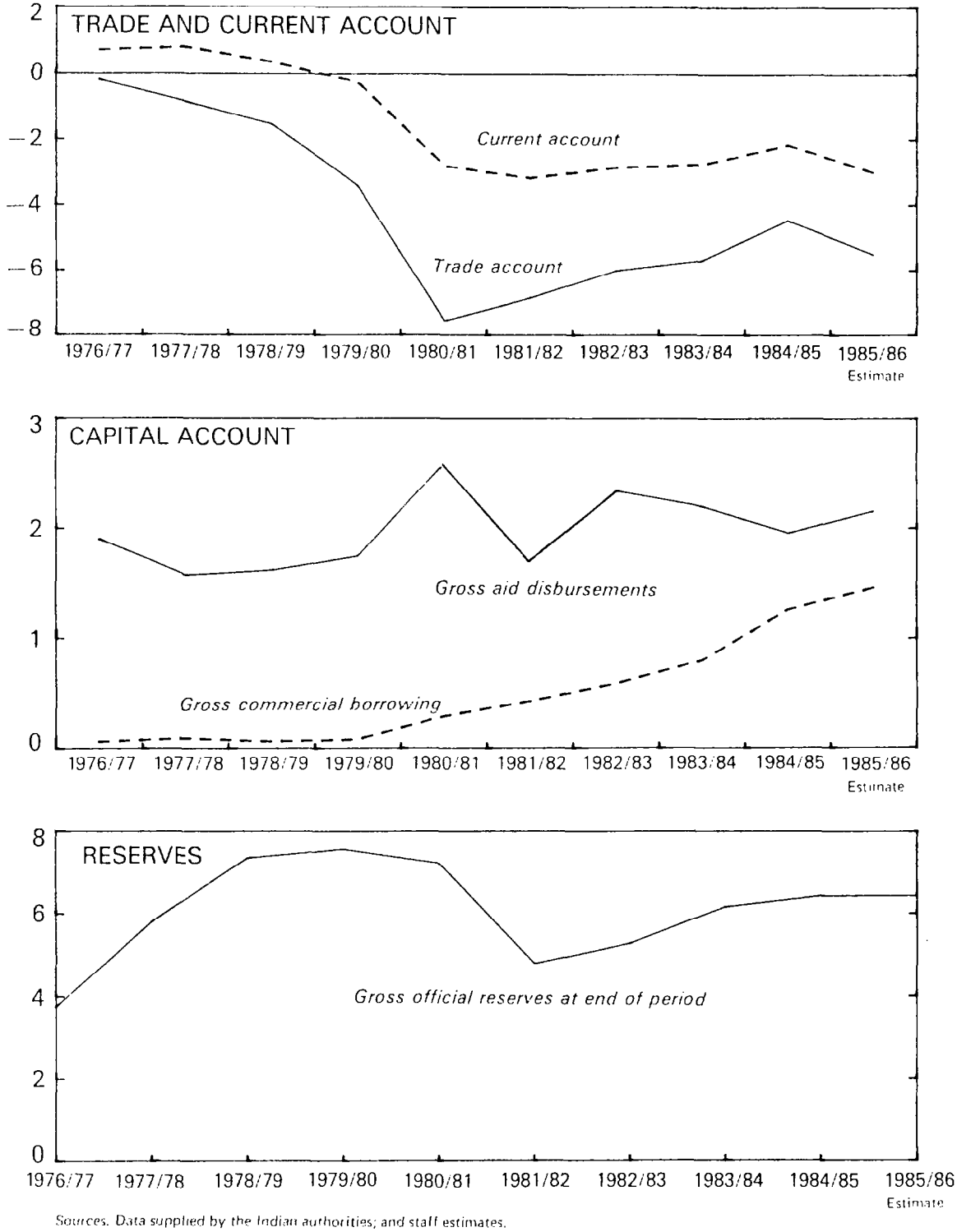
Sources: Data supplied by the Indian authorities; and staff estimates.

CHART 5

INDIA

BALANCE OF PAYMENTS, 1976/77-1985/86

(In billions of U.S. dollars)



Sources. Data supplied by the Indian authorities; and staff estimates.

from the unusually low level in 1984/85, reflecting large purchases of fertilizer, edible oil, and sugar in the first half of the year, and the impact of liberalization measures. The surplus on services and private transfers will be unchanged from 1984/85 with larger interest payments on external debt offset by higher private remittances. The external debt service ratio is expected to rise to 18 percent.

Increased capital inflows in 1985/86 mainly reflect the growth of concessional assistance and deposits in nonresident accounts, as well as a much smaller net outflow on account of errors and omissions. Aid disbursements would, nevertheless, remain substantially below the estimates made one year ago, particularly loans from the World Bank Group, mainly because of delays in project implementation. The authorities undertook only a modest increase in external commercial borrowing and expect that gross reserves of $6.4 billion at the beginning of 1985/86 will be at about the same level at the end of the year. Following a slight appreciation in the early months of 1985, the real effective exchange rate index depreciated during August-December by an estimated 6-7 percent (Chart 6). The authorities emphasized that a flexible exchange rate policy is being maintained.

Table 2. India: Economic Indicators, 1984/85-1985/86

	1984/85 (Preliminary)	1985/86 (Staff estimates)
	(Change in percent)	
Real GDP	4	4-5
Export volume	3	3
Import volume	-6	9
	(As indicated)	
Central Government deficit (% of GDP)	8.3	9.3
Central and State Governments deficit (% of GDP)	11.4	10.9
Broad money (% change during year)	18.5	16.0
Wholesale prices (% change during year)	7.1	5.3
Current account (% of GDP)	-1.2	-1.5
Official reserves (months of imports)	5.8	5.5
Debt service (% of current receipts)	16.1	18.4

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

4. The outlook for 1986/87

Prospects are for continued satisfactory growth and low inflation in 1986/87. In view of the plentiful supplies of foodgrain, emphasis in agricultural policy is placed on changing the composition of output to accord more closely with domestic demand, in addition to increasing the total volume of crops. Recently raised statutory minimum prices for sugarcane and oilseeds should help to encourage production of these commodities, partly on land that is presently used for wheat cultivation. Official wheat stocks are estimated at 17 million tons in December 1985, equivalent to 40 percent of annual production. The authorities expect an acceleration in the growth of industrial output, reflecting the impact of liberalization and an improvement in export performance.

Although at the time of the consultation discussions, the authorities were not in a position to provide any details of next year's Central Government budget, it was indicated that the broad thrust of policy would be to contain the deficit by further strengthening revenue collection and imposing strict limits on non-Plan current expenditure, including on food and fertilizer subsidies. The resource mobilization effort would be concentrated in the public enterprises, with price adjustments, better inventory management, and higher capacity utilization aimed at improving profitability. In these circumstances, the authorities expected that the lower rate of monetary expansion achieved in recent months could be maintained. 1/

The external current account deficit was projected at about 1.5 percent of GDP. The growth of export volumes could accelerate somewhat to 4-5 percent in view of recent reforms and the increased flexibility of exchange rate policy, but export growth would still remain below the 7 percent average projected in the Seventh Plan. The growth of import volumes would be 4-5 percent, somewhat less than assumed in the Plan, with some progress in substitution in both agricultural and industrial sectors. Helped by the fall in oil prices, the terms of trade are likely to improve despite the continued weakness of primary commodity prices. The decline in the trade deficit would be offset mainly by the increase in interest payments. The debt service ratio would rise to about 20-21 percent.

Gross external aid flows are expected to rise by 16 percent; this increase includes some funds that were not disbursed in the two preceding years because of delays in project implementation. Increased capital inflows would also take the form of higher commercial borrowing to around $2 billion in gross terms. The authorities did not place a rigid

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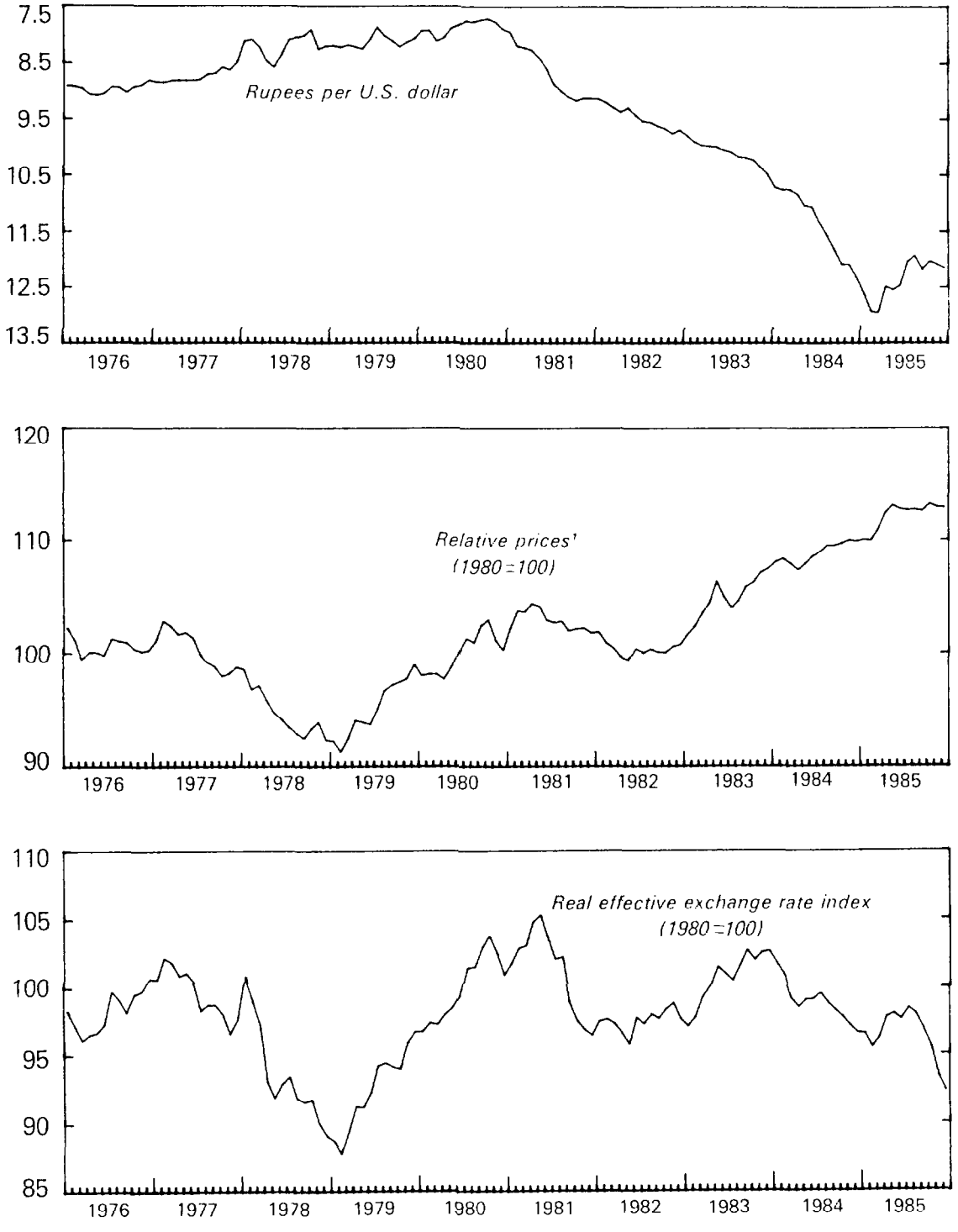
1/ It is planned to issue a supplement to the staff report after the 1986/87 budget has been submitted to Parliament in late February 1986.

CHART 6

INDIA

EXCHANGE RATE DEVELOPMENTS, 1976-85



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

[1]Movements in the Indian wholesale price index relative to movements in the wholesale price indexes of 35 major trading partners weighted by export shares in 1980

limit on new borrowing contracts and would review the situation at least every six months. Borrowing would not be undertaken to increase gross official reserves.

III. Liberalization and Reform Policies

The promotion of efficiency and international competitiveness throughout the economy, and particularly within the industrial sector, is a fundamental part of the Government's strategy to attain faster economic growth. In the past, excessive administrative regulation of industry and trade reduced competition, inhibited the ability of entrepreneurs to respond to changes in domestic and external demand, hampered the adoption of new technology, and discouraged attention to product design and quality control. The high degree of protection accorded to producers by industrial and import regulations enhanced the profitability of the domestic market relative to exports. Progress was made in reducing distortions in resource allocation under the Fund extended arrangement during 1981-84. Recently, the Government has strongly accentuated the trend toward liberalization and reform in a number of areas, particularly industrial licensing, import liberalization, tax reform, and financial reform. 1/ These actions have created a more favorable business climate, as indicated by increased activity in the capital market. It is difficult, however, to quantify their longer-term impact at this stage, particularly since the detailed administrative changes needed for their implementation have in some cases not yet been formulated fully. (Some quantitative indicators are provided in Table 3.) The staff would, nevertheless, agree with the authorities that these policies represent, in addition to a consolidation of earlier achievements, a more determined approach to the implementation of market-oriented policies which is in accord with the views expressed by Executive Directors during the 1985 Article IV consultation discussions. It is equally clear, however, that further important steps in all areas will be necessary to realize the authorities' goal of a substantially more efficient economy.

1. Industrial policy

Since 1951, in order to ensure that growth and development objectives are consistent, licenses have been required for public and private enterprises to install, expand and relocate capacity and to diversify product lines in virtually all forms of industrial activity. During 1981-84, liberalization measures included the exemption of licensing requirements for limited increases in capacity to meet domestic demand and for unlimited expansion of capacity to meet export demand. More fundamental reforms were introduced over the past year. Twenty-five

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1/ Details on recent measures are contained in the Supplement to Recent Economic Developments, Annex II.

product categories were delicensed, including industrial machinery, electronics and automotive components, and licensing categories were broadened for a variety of industries, mainly those groups for which delicensing was introduced, in order to enable manufacturers to adapt their products to changes in demand patterns without procedural delays.

Since 1969, in order to prevent the emergence of monopoly power and restrictive trade practices, companies with assets in excess of a specific minimum amount have been subject to additional controls. Large companies have not been permitted to operate in more than half of the product categories specified in the industrial licensing legislation, regardless of their degree of monopoly power. During 1981-84, entry provisions were eased and exemptions from the legislation were allowed for some products. In the 1985/86 budget, the coverage of the anti-monopoly legislation was reduced considerably through the raising of the asset limit fivefold to free some 500 out of 1,300 large companies and exempting 27 industrial groups from limits on capacity expansion. In December 1985, 22 of the exempted industries were delicensed and large companies were permitted to operate in an additional 17 industrial sectors. The Government is placing increased emphasis on achieving economies of scale, particularly in sectors where increased competitiveness in export markets is needed.

Policy measures have also been directed toward strengthening the overall efficiency of the industrial sector. The adoption of the latest technology is encouraged, especially through lower tariffs on computers and electronic goods, and easing of restrictions on foreign collaboration and investment. The production of high-technology goods, including a wide range of electronics, has been promoted particularly through liberalization and tax measures. Areas of low productivity, including "sick" industries and the textile sector, are being reformed through merger and rationalization, to reduce costs and achieve economies of scale, while firms that do not appear viable in the medium term are being closed. Policy on small-scale firms is being reviewed with a view to stimulating competition and growth. The staff team pointed out that in view of the ambitious targets for the industrial sector, further liberalization will be necessary, in particular with respect to the investment licensing and the list of products reserved exclusively for small firms. The authorities responded that liberalization is viewed as an ongoing process and, depending on the needs of the situation, measures may be considered after the present package is fully in place and can be assessed.

2. Import controls

Controls have aimed for many years at limiting imports to inputs that are not available domestically in sufficient quantity and to certain basic commodities including petroleum, edible oil and sugar that are handled exclusively by public sector agencies. Actual users are

authorized to import capital goods, raw materials, components and spare parts which may not be resold. Consumer goods imports are generally banned. During the Fund extended arrangement, measures were introduced each year to place capital goods and other inputs in less restrictive categories and to simplify procedures. These policies were aimed especially at avoiding bottlenecks in the production process and at providing privileged treatment for exporters.

A major feature of the 1985 export-import policy was the improved access to many items of industrial machinery through the removal of licensing requirements, simplification of procedures, and the reduction or elimination of tariffs. For a wide range of materials and components, monopoly import privileges of the public corporations were terminated. These steps would assist particularly those sectors, including automobile, electronics, and textiles, to which the industrial policy reforms were directed. Export incentives in the form of drawbacks for duty payments and cash compensation for indirect taxes were continued, and access of exporters to imported inputs was increased. In the effort to modernize industry, import liberalization will continue to play an important role in providing high-quality inputs to all export and other industries.

3. Tax reform

Over the past decade, the contribution of direct taxes, especially the personal income tax, to Central Government revenue declined substantially, despite high marginal rates of tax. The lack of buoyancy was attributed to the narrow tax base, numerous deductions and exemptions, and widespread evasion. The increased dependence on indirect taxes was reflected particularly in substantially higher rates of customs duty. The authorities became concerned about the growing dependence on the taxation of imports in view of the impact of the high cost of inputs on the competitiveness of the industrial sector.

Major reforms in the structure of direct taxation were introduced in the 1985/86 budget to create an environment to foster private sector growth and reduce tax evasion. The basic corporate tax rate was reduced by 5 percentage points to 50 percent. The maximum personal income tax rate was reduced by 12 percentage points to 50 percent, the exemption limit was raised by 20 percent, removing about one fourth of the taxpayers from the rolls, and the number of tax brackets was reduced from eight to four. Among other changes, the estate duty was abolished and the wealth tax was substantially reduced. Indirect tax changes included reduced import duties on capital equipment and, to a lesser extent, on raw materials, and higher rates on finished goods.

The Government outlined further reform proposals in the December 1985 statement on long-term fiscal policy. The objectives of these proposals are to create an environment of stable expectations which would facilitate long-term planning by business, to support investment

growth, and to reduce the scope of the unofficial economy. Personal income and wealth tax rates will remain unchanged for a minimum of five years. Temporary surcharges will be imposed in extraordinary circumstances and the impact of inflation on effective rates will be assessed every two to three years. Corporate tax rates will be maintained, although the surcharge and surtax, which together amount to 10 percent, will be abolished from April 1987. The customs and excise duty system will be simplified by consolidating the multitude of rates and exemptions and lowering the taxation of inputs for production, with losses recouped through higher duties on final products. Customs reform will place increased reliance on tariffs to regulate imports and reduce the role of quantitative restrictions. This will help to moderate the high protection granted to certain industries and reduce the delays and uncertainties associated with import licensing.

4. Financial reform

Over the years, the financial system has been geared to meeting the financing needs of the Government. This has resulted in rigidities in interest rates, while the associated credit allocation mechanisms, that included high prescribed ratios for investment in government securities (presently 37 percent of assets) at privileged interest rates, have imposed high costs on banks. The main consequences were distortions in credit allocation and little scope for open market operations in the conduct of monetary policy.

In the recent past, interest rates on government securities were raised and a larger part of the government's financing needs was covered by nonbank sources. Nevertheless, until recently, reform efforts in the financial sector, which aim at greater influence of the market, have proceeded less rapidly than those in other areas. The main issues now under consideration are appropriate methods of conducting monetary policy to secure adequate financing of the public sector without endangering price stability, stimulate savings, and encourage industrial and export growth. A committee on the working of the monetary system appointed by the Reserve Bank addressed these issues in a recently published report, and its recommendations are expected to be considered by the Government in early 1986.

The authorities view financial liberalization as a necessary complement to the recent liberalization and reform measures, but indicated that the large size of public sector financing is a complicating factor. Observed relationships between money, output, and prices in India over the past two decades could provide a basis for targeting a range of monetary growth, but this range would have to be coordinated with prospective public sector financing needs. The staff team discussed the possibility of greater reliance on flexible interest rate policy, of a reduction in quantitative lending controls, and of market-related yields on government securities. Such reforms would tend to mobilize more savings, improve the allocation of credit, and increase the effectiveness of monetary policy by providing scope for open market operations,

while also giving the Reserve Bank greater flexibility in the use of cash and liquidity ratios and of refinance facilities.

Table 3. India: Some Indicators of the Impact of Recent Liberalization and Reform Measures

	Period	1984	1985	Percentage increase
Industrial policy				
Number of letters of intent issued	Jan-Dec	1,064	1,400 1/	32
Number of industrial licenses issued	Jan-Dec	905	1,060 1/	17
Foreign Collaboration				
Number of agreements concluded	Jan-Dec	752	850 1/	13
Tax collections				
Income tax receipts 2/ (in bn. of rupees)	Apr-Oct	16.7	21.0	25
Private capital market				
Number of issues approved	Apr-Dec	477	531	11
Value of issues approved (in bn. of rupees)	Apr-Dec	14.0	17.7	27
Share prices				
All-India equity index (1979 = 100)	Jan-Dec	173	332	92

Sources: Data provided by the Indian authorities; and staff estimates.
1/ Estimate.
2/ Including the impact of improved administrative procedures.

IV. Medium-Term Issues

The Seventh Five-Year Plan, which was officially adopted in December 1985, aims at an average annual growth rate of 5.3 percent--well above the long-term historical trend of close to 4 percent--to be achieved by efforts to promote industrial output, while continuing agricultural expansion (Table 4). It is to be supported by a rise in public and private investment averaging 6 percent annually in real terms and an

acceleration of export volume growth to 7 percent annually. 1/ The strategy for industrial development focuses on increased access to technology, greater reliance on the private sector in the investment effort, a greater degree of liberalization, tax incentives, and a larger supply of imported inputs. According to the World Bank, these development targets are feasible, if strong policies are pursued, and this is recognized by the authorities. Their position is that the Five-Year Plan expresses the Government's development strategy but is not a rigid framework, and that annual targets will be adjusted, in the light of evolving circumstances, in order to maintain internal and external financial stability. In this context, the principal medium-term issues discussed with the authorities were public sector resource mobilization, external borrowing strategy, and export promotion.

Table 4. India: Main Plan Targets, 1980/81-1989/90

	Sixth Plan (1980/81-1984/85)		Seventh Plan (1985/86-1989/90)
	Target	Actual	Target
	(Average annual increases in percent; in real terms)		
GDP at market prices	6.2	5.5 1/	5.3
Agricultural value added	3.8	4.5	2.5
Industrial value added	6.9	4.7	6.8
Export volume	9.0	1.3	6.8
Import volume	9.5	2.7	5.8
	(In percent of GDP)		
Investment	24.3	23.9	25.3
National savings	22.9	22.3	23.7
Current account deficit	1.4	1.6	1.6

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

1/ The trend rate would be about 4 percent, if the level of the base year is adjusted because of the drought.

1/ A World Bank staff assessment of the investment program is contained in the Supplement to Recent Economic Developments, Annex I.

1. Public sector resource mobilization

During the Sixth Plan, the budgetary savings of the central and State Governments were less than expected, mainly because of lower tax receipts, while the surplus of the public enterprises sector was limited by the poor financial performance of the non-oil enterprises. Resources available for financing the public sector plan averaged 4.8 percent of GDP, well below the target. In order to constrain the overall public sector deficit at close to the Plan, real expenditure was reduced by about one sixth below the Plan level.

The Seventh Plan calls for a strengthened public sector resource mobilization effort to help finance the higher level of public investment needed to achieve the overall investment and growth targets. Taking into account the expected impact of substantial new revenue raising measures, resources available for financing the public sector plan are targeted to reach 6 percent of GDP. Notwithstanding measures to constrain the growth of current expenditure, the Central Government's budgetary savings are expected to be negative. However, both revenue and expenditure policies could change such an outcome. The authorities believe that the outcome could be better than expected in view of the supply effects of recent tax changes. Increased Central Government savings could also result from more efficient current expenditure restraint. The mission pointed to the need of reversing the trend in the growth of subsidies and of preventing expenditure increases through supplementary budgets. 1/ The budgetary savings of the State Governments are projected at 1.6 percent of GDP, unchanged from the previous plan. More effective expenditure discipline is also required at the state level to realize the Plan. The authorities expect that the recent changes in policy regarding overdraft facilities with the Reserve Bank should help to ensure this.

The crucial area is the performance of the public enterprises, whose savings are projected to rise to 4.7 percent of GDP, more than double the rate achieved during the Sixth Plan. The authorities indicated that policy measures would be concentrated in this area. In particular, since the growth in the savings of the oil sector enterprises is likely to be smaller than in the recent past, the strengthening of the finances of the non-oil enterprises has acquired added importance. Efforts will have to be made to cut costs and raise income through higher rates of capacity utilization, improved labor productivity, rationalization, mergers, and where necessary the closure of unprofitable enterprises. Initial steps in these areas have already been taken. The authorities also agreed with the staff team that a flexible

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1/ Fertilizer and food subsidies by the Central Government rose from Rs 12 billion in 1980/81 to an estimated Rs 37 billion in 1985/86, representing 7 percent of total expenditures. Details are contained in Recent Economic Developments, Chapter III.

pricing policy is important for achieving the savings targets of the public enterprise sector.

The authorities aimed to implement most of the resource mobilization measures during the first years of the Seventh Plan. Measures introduced during 1985/86 were estimated to yield the equivalent of almost 2 percent of GDP, with a substantial part of the total realized through expenditure control in the public enterprises. It was expected that additional measures, averaging the equivalent of about 0.5 percent of GDP, would be needed in each of the remaining years of the Plan. The cumulative effect of these actions would be to secure a steady rise in public resources available for Plan financing from 4.5 percent of GDP in 1985/86 to 7.1 percent in 1989/90. 1/

Table 5. India: Public Sector Resources Available for Plan Financing 1/

(In percent of GDP)

		Sixth Plan			Seventh Plan
		Target	Actual		Target 2/
Central government		1.5	0.9		-0.3
States		2.6	1.6		1.6
Public enterprises		2.8	2.2		4.7
Total resources		6.9	4.8		6.0
Annual breakdown:	1980/81	...	3.8	1985/86	(4.5)
	1981/82	...	5.1	1986/87	(5.4)
	1982/83	...	5.5	1987/88	(6.0)
	1983/84	...	5.0	1988/89	(6.5)
	1984/85	...	4.4	1989/90	(7.1)

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

1/ Defined as current revenue less non-Plan current expenditure (which is all current expenditure apart from maintenance and other current expenditure associated with investment projects that are included in the Plan) for Central and State Governments and operating surpluses of public enterprises.

2/ Implied annual targets were derived from Seventh Plan data prepared in 1984/85 prices on the assumption of a 5 percent annual rate of price increase.

1/ Further details are presented in the Supplement to Recent Economic Developments, Annex III.

2. External borrowing strategy

The scope for commercial borrowing was discussed on the basis of illustrative scenarios intended to show the implications of the planned development strategy and of various assumptions on the balance of payments, commercial financing needs, and debt service obligations. 1/ In the first scenario, consistent with the Seventh Plan, gross commercial borrowing averages $2.4 billion a year (about $1.8 billion on a net basis) with the debt service ratio rising to 21 percent by 1989/90 (Table 6 and Chart 7). Against the background of rapid export growth, as assumed in the Plan, this situation would be manageable. Nevertheless, the debt situation is worsening during the Plan period, and would become more difficult beyond 1989/90, when commercial debt service payments would increase substantially, bringing the debt service ratio to 25 percent in 1994/95. However, the staff team pointed out that the Plan scenario rests on the optimistic assumptions of annual increases of 7 percent in export volumes and 15 percent in aid disbursements.

Alternative assumptions for exports and aid were suggested by the staff. A 4 percent growth was assumed for export volume, broadly in line with the long-term historical trend but still significantly higher than export growth during the past few years. 2/ Aid disbursements were assumed to rise by 10 percent. This rise is still considerably higher than during the Sixth Plan but appears feasible because of the presently large undisbursed commitments. On account of these changes in assumptions, gross commercial borrowing requirements and the debt service ratio would rise rapidly, leading to an unsustainable external situation. The authorities felt that the alternative assumptions were on the pessimistic side. Export performance would be higher than the past trend as a result of the liberalization and reform measures and other policies to stimulate industrial development and competitiveness. It was recognized that achieving the export target during the Seventh Plan might not be possible, given the weak performance in the first Plan year. Nevertheless, taking into account the time needed to redirect resources to the export sector, it was still possible that 7 percent growth could be achieved during the later years of the Plan. Aid disbursements would also be higher than during the Sixth Plan, since the World Bank is to provide more and faster disbursing loans and would also increase the share of local cost financing. This would speed up project implementation, which has been hampered by the shortage of budgetary resources. The authorities also pointed out, and the staff team agreed, that other variables in the Plan could change and that these deviations could provide some offset to lower exports and aid. Transfer receipts may be underestimated and import substitution, in particular with

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1/ The details of the scenarios are presented in Annex II.

2/ Export performance during 1950-84 is reviewed in the Supplement to Recent Economic Developments, Annex IV.

respect to edible oils and sugar, may be higher than assumed. Furthermore, some allowance should be made for the impact on import volume growth if exports and aid disbursements are assumed to grow more slowly. But, most importantly, the drop in oil prices would ease the balance of payments constraint.

Indeed, the recent fall in oil prices has introduced a new element into the projections which significantly affects the balance of payments outlook for 1986/87-1989/90. At the time of the discussions, the average price per barrel for 1986/87-1989/90 was already expected to be about $4 lower than assumed in the Plan, and subsequent price declines led to a further downward revision for 1986/87-1989/90 of $5 per barrel. 1/ These revisions reduce the oil import bill by $1.2 billion a year from the original Plan assumptions, and on a net basis--assuming lower revenues of oil exporting countries will affect remittances and nonresident deposits--the balance of payments could benefit by some $900 million a year. This would be equivalent to almost one third of the aid projected to be disbursed during the same period.

In a second scenario, the lower oil price and non-oil import volume assumptions roughly offset the impact of lower exports on the current account. The overall external position would still deteriorate, however, because of lower aid and nonresident deposits. To cover the balance of payments gap, gross commercial borrowing would have to average close to $3 billion, reaching $3.8 billion in 1989/90, when the debt service ratio would have risen to over 23 percent. In the following five years, the ratio would rise further to 29 percent, indicating that the debt position in the years beyond the Plan would come under increased strain. In this scenario, the Government would face the choice between higher commercial borrowing than it presently envisages and considers prudent, while maintaining accelerated GDP growth, or to adopt a slower pace of development than targeted. The authorities emphasized that if the medium-term balance of payments trends indicated the possibility of debt servicing difficulties, as in this scenario, growth would have to be slower than planned.

A third scenario illustrates the implications of putting a limit on commercial borrowing. The limit is assumed to be $2 billion per year, somewhat lower than the Plan assumption (which was associated with higher export growth), but still within the range of the authorities' thinking. Other assumptions of the second scenario are retained, except for imports, which were derived as a residual. Under this borrowing policy, the debt service ratio would rise to 22 percent by the end of the Plan period and decline thereafter. However, the limitation of

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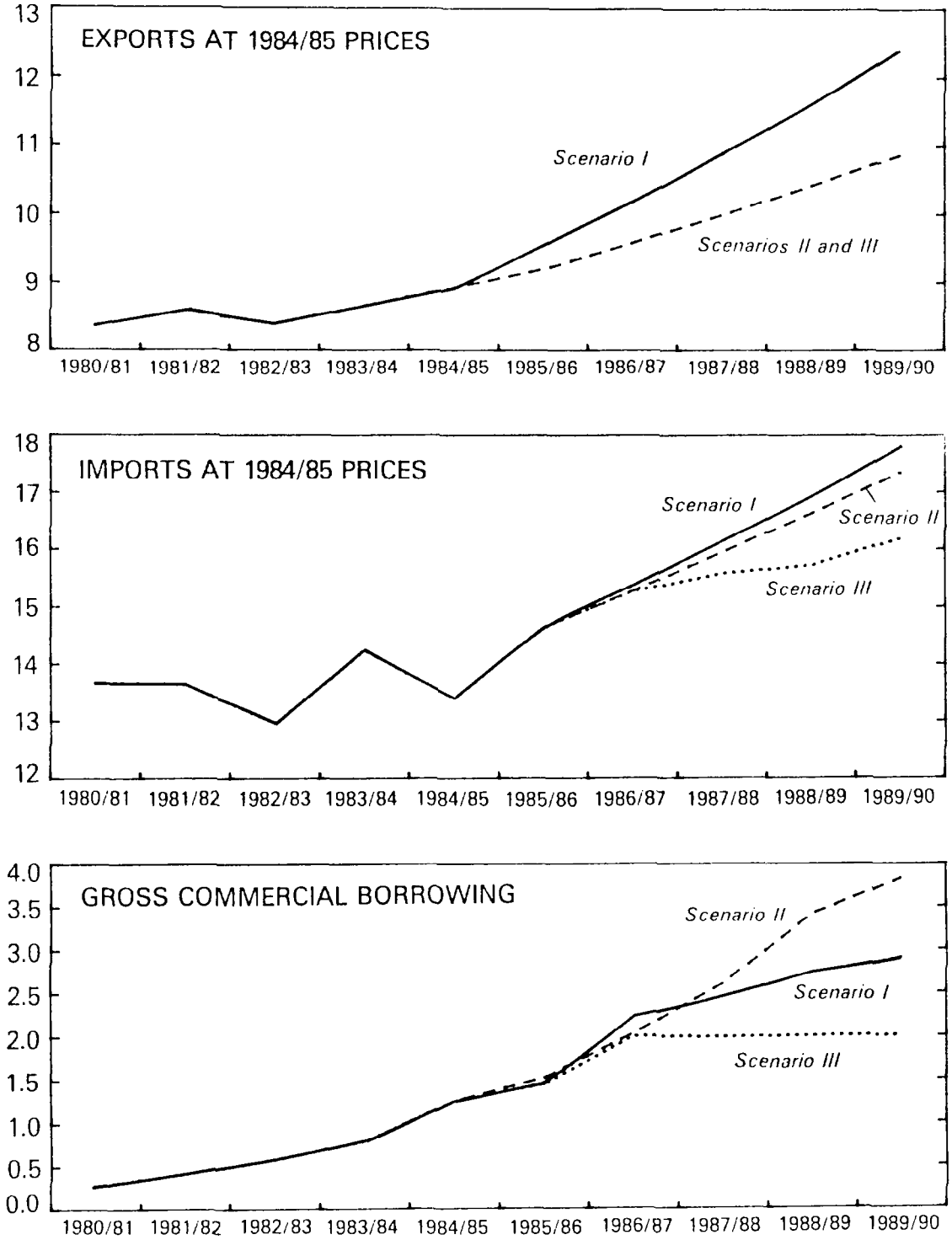
1/ The Plan assumes that oil prices are constant in real terms during 1985/86-1989/90, implying an average price of $29/bbl. Scenario II assumes a price of $20/bbl. in 1986/87 and an average price of $22/bbl. for 1985/86-1989/90.

CHART 7

INDIA

MEDIUM-TERM BALANCE OF PAYMENTS SCENARIOS, 1980/81-1989/90

(In billions of dollars)



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

commercial borrowing would allow an annual import growth of less than 4 percent in volume, compared with close to 6 percent projected in the Plan (Table 6 and Chart 7). The impact of this import constraint on growth would be a reduction by over 1 percentage point, 1/ so that economic growth during the plan period would proceed at a rate of about 4 percent, i.e., at about the historical trend. In this scenario, despite the balance of payments relief provided by lower oil prices, considerations of external debt management would preclude an accelerated pace of development as long as export performance fails to improve.

Table 6. India: Summary of Medium-Term Balance of Payments Scenarios, 1985/86-1989/90

	Scenarios		
	I 1/	II	III 2/
	(Annual averages, 1985/86-1989/90)		
Export volume growth (in percent)	6.8	4.0	4.0
Import volume growth (in percent)	5.8	5.3	3.8
Oil price ($/bbl.)	29.2	21.7	21.7
Oil import bill ($ bn.)	4.5	3.3	3.3
Current account ($ bn.)	3.9	3.8	3.1
(percent of GDP)	(1.6)	(1.5)	(1.3)
Gross aid disbursements (% change)	15.0	10.0	10.0
Gross commercial borrowing (% change)	18.3	24.9	9.7
	(Estimates for 1989/90)		
Gross aid disbursements ($ bn.)	3.9	3.1	3.1
Gross commercial borrowings ($ bn.)	2.9	3.8	2.0
Debt service ratio 3/	21.2	23.3	22.3
(1985/86)	(18.0)	(18.4)	(18.4)
(1994/95)	(25)	(29)	(20)

Sources: Data provided by the Indian authorities; and staff estimates.
1/ Assumptions consistent with the Seventh Plan.
2/ Assumptions of Scenario II, but with gross commercial borrowing constrained to $2 billion annually, and imports derived as a residual.
3/ In percent of current receipts.

1/ The elasticity of non-oil imports with respect to GDP is estimated to be around 1.3.

The general conclusion from the above scenarios is that there is a continued need to observe prudent limits for commercial borrowing to ensure a manageable external debt situation, and that if external developments, in particular exports, are less favorable than those assumed in the Plan, the scope for accelerating growth will be reduced. This outcome could, of course, be modified by a stronger policy response, as well as by various developments outside the control of the authorities, which could deviate from the assumptions implicit in these scenarios. The most important of these assumptions relate to export and non-oil import prices, oil prices, world demand, and world interest rates. Estimates indicate that the balance of payments is quite sensitive to changes in these variables (Table 7.) If the trend in world demand is 1 percentage point higher or lower than assumed, the current account would, on average, change by $400 million annually. A similar change would result from a rise in export prices that deviates by 1 percentage point from the assumed trend. Each drop in oil prices by $1 per barrel below the level projected in each year would lower the import bill by some $160 million, but also reduce remittances and the inflow of non-resident deposits, resulting in an average annual improvement of the current account of some $130 million. A change in the assumed trend of non-oil import prices by 1 percentage point would affect the current account on average by $450 million annually. Finally, each 1 percentage point change in international interest rates would change the current account, on average, by $150 million annually. 1/

Table 7. India: Sensitivity of Medium-Term Balance of Payments to Key Assumptions, 1985/86-1989/90

	Assumptions			Average Annual Impact on the Current Account ($ mn.)
	Scenario I	Scenarios II and III	Change in Variable	
	(Average 1985/86-1989/90)			
Oil prices 1/	29.2	21.7	-$1/bbl.	+130
Non-oil import prices 2/	4.0	4.0	+1% point	-450
Export prices 2/	3.0	3.0	+1% point	+400
World demand 2/	5.0	5.0	+1% point	+400
LIBOR 3/	7.9	7.9	+1% point	-150

Sources: Data provided by the Indian authorities; and staff estimates.
1/ $/bbl.
2/ Annual percentage change.
3/ In percent.

1/ Details of the sensitivity analysis are discussed in Annex II.

3. Export promotion

Apart from the influence of external developments on the medium-term external scenario, the authorities realize that the key to accelerating growth while maintaining a sound foreign debt position remains an improvement of export performance. In view of the weak performance in the past, raising export growth significantly over the next few years has, therefore, become an urgent task. In this context, various approaches were discussed to increase the supply of exports and to make them more competitive, in terms of price as well as in terms of quality and timely delivery. The main focus was on exchange rate policy and import liberalization, which are complementary and mutually reinforcing.

With respect to price competitiveness, the authorities pointed to the recent depreciation in the real effective exchange rate (Chart 6) and indicated that they would continue to use exchange rate policy in a flexible manner so as to safeguard India's competitive position and to provide proper incentives to exporters. The staff team viewed a strong competitive position as an essential part of the export strategy and as a means of reinforcing the trade liberalization measures. It pointed to the experience in the 1970s when, together with other supporting policies, export performance had responded to gains in competitiveness. In contrast, in other periods, market shares had been lost following losses in competitiveness (Chart 2 and Table 8). The recent depreciation of the real effective rate, combined with liberalization and reform measures, should reduce the profitability advantage of domestic sales over export sales and benefit export performance.

Table 8. India: Competitiveness and Export Performance, 1950-85

(Annual average change in percent)

Period	Real Effective Exchange Rate	Export Volume	Market Share
1950-65	1.2	1.7	-4.4
1966-73	-3.4	3.7	-7.3
1974-78	-4.9	7.7	0.2
1979-85	0.2	1.0	-1.9

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

As an essential step in export promotion, further import liberalization is needed to achieve the upgrading of production facilities and the adequate provision of inputs for export production. Several administrative steps to provide greater access of exporters to imported inputs have recently been taken. The authorities expect that, in addition to import liberalization, the various other liberalization and reform measures will increase industrial efficiency by giving greater flexibility and freedom to individual enterprises and by increasing competition between them. Such changes would stimulate product improvements, quality control, and market development, and lower costs through the exploitation of economies of scale. The staff team agreed that allowing business initiative to be less restrained by bureaucratic procedures should have a beneficial effect, in particular on exports, and suggested that any remaining administrative obstacles to exporters and potential exporters be further alleviated through simplifying procedures and eliminating unnecessary ones.

A successful revitalization of the export sector would also be helped by the growth in world demand and a favorable world economic environment. Although, in India's case, quotas and other restrictions in foreign markets are somewhat mitigated by greater diversification of sales among country markets and a lesser degree of specialization in production, protectionism would, nevertheless, make the authorities' task more difficult.

V. Staff Appraisal

Economic policy has entered a new phase in India. In the Seventh Plan (1985/86-1989/90), which was approved recently, the Government has set an ambitious program for accelerated development, aiming at substantially higher growth of output than the historical trend. To establish adequate conditions for the realization of the target, a number of deep-seated structural problems are being addressed more forcefully and efforts are underway to modernize the economy. The strategy also gives due consideration to price stability and balance of payments viability and, accordingly, incorporates cautious financial policies and a prudent external borrowing program.

The liberalization and reform measures implemented during the past year are impressive and represent an intensified effort to continue a policy direction initiated during the EFF period. While some time will be needed to assess the full impact of these measures, important steps to follow up in this direction will almost certainly be required, if the strategy of accelerated development is to succeed. This is recognized by the Government, which regards liberalization and reform as a continuing process. It is also important that liberalization is supported by a flexible exchange rate policy.

Significant scope for further measures indeed exists. In particular, these include delicensing in industry, the simplification of administrative procedures, and import liberalization. A further easing of access to foreign technology and an improvement in the climate for foreign investment will also help in the authorities' efforts to achieve full-scale industrial modernization. The 1985/86 budget contained a major tax reform package, including tax reductions and simplifications, and this, together with a strengthening of tax administration, has already had a positive effect on tax collections. In the fiscal area, there is potential for additional improvements as suggested in the government's statement on long-term fiscal policy. These include a further rationalization of direct taxes, changes in the incentive system, a restructuring of indirect taxes, and a progressive shift from quantitative import controls to tariffs. Financial liberalization has yet to be implemented. Official proposals which aim at a movement toward market-related interest rates, a better coordination of budgetary and monetary policies, and monetary targeting, would contribute to efficient credit allocation and effective demand management. Steps beyond these proposals, including a more extensive freeing of interest rates and the replacement of selective credit controls by general controls, would also be needed to strengthen the reforms in the other areas.

If the investment objectives of the Seventh Plan are to be secured, while containing the overall public sector deficit and monetary expansion, a substantial public sector resource mobilization effort is needed. The Government has set up a monitoring system for public enterprises and initiated measures to improve their financial performance, since a major part of public sector resource mobilization is expected to come from the public enterprise sector. Technical and managerial improvements will have to be implemented to cut costs, and further price adjustments may be necessary to strengthen the financial position of the non-oil public enterprises. These efforts should be complemented by raising the savings of the Central and the State Governments. Central government resource mobilization should be significantly improved over the Plan projections, which indicate negative amounts. This can be achieved through the tax reforms already in place and the early implementation of envisaged further reforms, as well as through continued strengthening of tax administration, combined with firm expenditure controls. The sharply rising trend in subsidies, in particular, would need to be reversed. Recent increases in fertilizer and food grain prices are moves in this direction. Substantial additional savings by the states could also be realized through adjusting charges to recover costs.

The new policy initiatives are being undertaken during a period when there are no major demand management problems in the short run, but when the weakness in export performance, evident over the past few years, has become more pronounced and is of growing concern. Inflation has been reduced to a moderate rate, while satisfactory output growth has been maintained. Successive good harvests and large imports of key commodities contributed importantly to the slowdown in inflation, but liquidity

expansion was also reduced during 1985. To bring money supply closer in line with money demand, the slowdown in liquidity expansion will have to continue. Because of the magnitude of public sector financing, this will require that the public sector deficit for 1986/87 is constrained. A firm control over Central Government expenditure and a continuation of the intensified revenue collection efforts is needed to guarantee this. In addition, the recent enforcement of budgetary discipline by the states through the restriction of overdraft facilities with the Reserve Bank should remain an effective element of public sector restraint. The overall external situation has been relatively comfortable, but only because rising earnings from services and higher capital inflows have financed a widening trade deficit. Almost one year into the new Plan period, there is no sign of the substantial breakthrough needed to achieve the export volume growth envisaged in the Plan. Continuation of present export trends would have serious balance of payments implications and require a modification of the Government's strategy of accelerated growth. The Government's position rightly is that a potential balance of payments constraint cannot be met by resorting to import controls which would negate the thrust of its current strategy.

The balance of payments scenario consistent with the high export growth and other assumptions in the Seventh Plan provide for commercial borrowing in the range of $2-3 billion a year. This would represent a sustainable course within the context of rapid export growth. However, likely shortfalls in projected export earnings and possibly also in official aid would widen the financing gap and raise the debt service ratio uncomfortably. In such a case, the Government would have to modify its development strategy and opt for lower growth than planned in order to prevent debt servicing difficulties. However, increased efforts should be made at an early stage to accelerate export growth and thereby avoid the possibility, at a later stage, of a dilemma between the authorities' desire for higher growth and balance of payments viability. This calls for bold action on many fronts aimed at enhancing the range and quality of export products and at an improvement in export profitability relative to domestic sales. Effective implementation of liberalization and reform measures as well as of a flexible exchange rate policy, combined with financial discipline in the public sector, are key elements of such strategy. While the presently expected lower level of oil prices alleviates the prospective balance of payments constraint, the urgency remains to implement policies which create conditions for accelerated growth and employment opportunities, and for a more competitive economy. The moves to remedy long-standing weaknesses in the economic structure and to revitalize the export sector present a formidable challenge to the Indian authorities. Their efforts should be supported by a lowering of barriers to the entry of exports into foreign markets.

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

VI. Proposed Decision

The following draft decision concluding the 1986 Article IV sultation with India is proposed for adoption by the Executive Bc

1. The Fund takes this decision relating to India's exchange measures subject to Article VIII, Section 2, and in concluding the 1986 Article XIV consultation with India, in the light of the 1986 Article IV consultation with India conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The restrictions on the making of payments and transfer for current international transactions described in SM/86/... are maintained by India in accordance with Article XIV, except that the restriction arising under the remaining bilateral payments agreement with a Fund member is subject to approval under Article VIII, Section 2. The Fund encourages the authorities to terminate the bilateral payments agreement with a Fund mem ber as soon as possible and to further simplify the exchange system.

Table 1. India: Central Government and Consolidated Central and State Government Budgets, 1980/81-1985/86

(In billions of rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	
						Budget est.	Staff proj.
al Government							
enue and grants	128.3	155.7	180.9	204.9	249.3	271.2	284.2
ax revenue	93.9	115.7	130.6	154.7	179.3	192.7	205.7
ontax revenue	30.7	36.8	47.4	47.4	66.1	74.7	74.7
ants	3.7	3.2	3.0	2.8	3.9	3.8	3.8
enditure and net lending	211.5	242.5	306.0	344.2	429.1	473.0	509.1
urrent expenditure	136.0	158.7	193.5	228.9	283.0	325.1	336.6
apital expenditure and gross lending	90.7	104.6	146.3	152.8	183.9	185.8	210.4
ess: Loan repayments	-15.2	-21.7	-33.7	-37.5	-37.7	-37.9	-37.9
all deficit	-83.2	-86.8	-125.1	-139.3	-179.8	-201.8	-224.9
xternal financing	13.4	10.3	13.5	14.4	17.4	21.4	21.4
omestic financing	69.8	76.5	111.6	124.9	162.4	180.4	203.5
idated Government							
enue and grants	250.0	308.1	362.0	413.2	483.0	546.7	563.7
enditure and net lending	368.5	437.4	527.5	608.3	732.2	803.3	827.1
all deficit	-118.5	-129.3	-165.5	-195.1	-249.2	-256.6	-263.4
xternal financing	12.3	9.2	11.9	12.8	16.0	19.7	19.7
omestic financing	106.2	120.1	153.6	182.3	233.2	236.9	243.7
andum items:			(In percent of GDP)				
al Government							
enue and grants	10.0	10.6	11.1	10.5	11.4	11.2	11.8
enditure and net lending	16.5	16.4	18.7	17.6	19.7	19.6	21.1
urrent	10.6	10.8	11.8	11.7	13.0	13.5	14.0
apital and net lending	5.9	5.6	6.9	5.9	6.7	6.1	7.1
all deficit	6.5	5.8	7.6	7.1	8.3	8.4	9.3
idated Government							
enue and grants	19.5	20.9	22.1	21.1	22.2	22.7	23.4
enditure and net lending	28.8	29.7	32.2	31.1	33.6	33.3	34.3
all deficit	9.3	8.8	10.1	10.0	11.4	10.6	10.9

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

Table 2. India: Monetary Survey, 1980/81-1985/86 1/

	1980/81	1981/82	1982/83	1983/84	1984/8
	(In billions of rupees; at end of per				
Broad money (M_3)	553.1	625.5	728.7	858.4	1,017.
Money (M_1)	232.7	249.0	285.3	331.1	394.
Time deposits	320.5	376.6	443.3	527.3	622.
Net foreign assets	46.8	26.6	16.8	15.8	30.
Domestic credit	621.3	739.5	864.2	1,002.5	1,192.
Net credit to government	258.1	309.1	352.6	405.3	489.
Credit to commercial sector	363.2	430.4	511.6	597.2	702.
Other items, net	-114.9	-140.6	-152.3	-159.9	-205.
	(Annual percentage change) 2/				
Broad money	18.1	13.1	16.5	17.8	18.
Money	15.8	7.0	14.6	16.1	19.
Time deposits	19.9	17.5	17.7	18.9	18.
Domestic credit	24.6	19.0	16.9	16.0	19.
Net credit to government	34.3	19.8	14.1	14.9	20.
Credit to commercial sector	18.5	18.5	18.9	16.7	17.

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

1/ Includes the Reserve Bank of India, scheduled commercial banks (in regional rural banks), scheduled state cooperative banks, and Post Offic banks deposits.

2/ Years to March.

Table 3. India: Balance of Payments, 1980/81-1985/86

(In millions of U.S. dollars)

	1980/81	1981/82	1982/83	1983/84	Prov. 1984/85	Proj. 1985/86
balance	-7,560	-6,855	-5,999	-5,693	-4,467	-5,366
rts, f.o.b. 1/	(8,332)	(8,477)	(8,385)	(8,667)	(8,931)	(8,750)
rts, c.i.f. 2/	(-15,892)	(-15,332)	(-14,383)	(-14,360)	(-13,398)	(-14,116)
bles balance	4,823	3,829	3,204	2,922	2,310	2,324
actor services	(1,434)	(1,064)	(1,002)	(1,089)	(832)	(902)
investment income	(529)	(278)	(-423)	(-727)	(-866)	(-1,008)
sfers	(2,860)	(2,487)	(2,624)	(2,560)	(2,344)	(2,430)
t account	-2,737	-3,026	-2,795	-2,772	-2,157	-3,042
l account	1,742	521	1,545	2,343	2,357	3,239
d	1,780	1,124	1,726	1,602	1,410	1,548
s	(1,224)	(794)	(1,374)	(1,308)	(1,107)	(1,249)
sbursements	2,094	1,527	1,984	1,905	1,652	1,852
ɔrtization	-869	-732	-610	-596	-546	-602
ts	(555)	(330)	(352)	(293)	(303)	(299)
cial borrowing	117	92	365	533	929	1,051
ursements	(...)	(...)	(585)	(794)	(1,259)	(1,445)
tization	(...)	(...)	(-219)	(-261)	(-330)	(-394)
ral arrangements	-94	-323	-364	194	164	41
ident deposits	145	179	592	558	609	699
capital (including errors and omissions)	-206	-551	-774	-543	-756	-100
l balance	-995	-2,505	-1,250	-428	200	197
ry movements	995	2,505	1,250	428	-200	-197
use of Fund credit	342	692	1,968	1,305	67	-207
rchases	(342)	(692)	(1,968)	(1,376)	(201)	(--)
purchases	(--)	(--)	(--)	(-70)	(-134)	(-207)
cial reserves (- = increase)	653	1,813	-718	-877	-267	10
ndum items						
ent account as percent of GDP	-1.7	-1.8	-1.6	-1.5	-1.2	-1.5
year gross reserves 3/	7,224	4,794	5,290	6,167	6,434	6,424
year gross reserves (in months of ports)	5.5	3.8	4.4	5.2	5.8	5.5

ces: Indian authorities; and staff estimates.

Excluding crude oil exports.
Including only net crude oil imports.
Gross reserves, including gold holdings valued at SDR 35 per troy ounce.

Table 4. India: External Debt Service Payments, 1980/81-1989/90 1/

(In millions of U.S. dollars)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
1. IMF (including Trust Fund) 2/	16	36	174	409	558	657	966	1,201	1,278	1,077
Repurchases	--	--	--	70	134	262	592	898	1,024	900
Charges	16	36	174	339	424	395	375	304	253	178
IMF	15	33	171	406	555	599	848	1,083	1,158	956
Repurchases	(--)	(--)	(--)	(70)	(134)	(207)	(476)	(782)	(906)	(779)
Charges	(15)	(33)	(171)	(336)	(421)	(392)	(372)	(301)	(252)	(177)
General acct.	(7)	(22)	141	274	371	353	339	268	219	143
SDR account	(8)	(11)	30	62	51	39	32	32	33	34
Trust Fund	1	3	3	3	3	58	118	118	120	121
Repurchases	(--)	(--)	(--)	(--)	(--)	(55)	(116)	(116)	(118)	(120)
Charges	(1)	(3)	(3)	(3)	(3)	(3)	(3)	(2)	(1)	(1)
2. Debt service (excluding IMF)	1,276	1,341	1,582	1,694	1,808	2,056	2,309	2,516	3,044	3,564
Amortization	766	786	809	857	874	942	1,096	1,131	1,308	1,617
Interest	510	555	774	837	933	1,114	1,212	1,385	1,737	1,946
World Bank Group	134	127	176	233	277	381	428	460	525	543
Amortization	(65)	(46)	(56)	(69)	(76)	(95)	(139)	(169)	(211)	(235)
Interest	(69)	(81)	(121)	(163)	(202)	(286)	(289)	(291)	(314)	(308)
Bilateral and other multilateral aid	880	820	804	764	710	685	712	736	728	761
Amortization	(591)	(556)	(553)	(527)	(470)	(462)	(481)	(495)	(467)	(452)
Interest	(289)	(264)	(251)	(237)	(240)	(233)	(231)	(241)	(261)	(309)
Commercial borrowing	152	268	442	461	574	683	847	968	1,351	1,754
Amortization	(110)	(184)	(200)	(261)	(330)	(394)	(476)	(467)	(630)	(929)
Interest	(42)	(84)	(242)	(200)	(244)	(288)	(371)	(501)	(722)	(825)
Other interest payments	110	126	160	236	247	307	322	352	438	505
Nonresident deposits	(85)	(101)	(130)	(200)	(227)	(267)	(282)	(312)	(398)	(465)
Other	(25)	(25)	(30)	(36)	(20)	(40)	(40)	(40)	(40)	(40)
3. Total debt service payments (1 + 2)	1,292	1,377	1,756	2,103	2,366	2,713	3,275	3,717	4,322	4,641
Principal	766	786	809	928	1,008	1,204	1,688	2,029	2,332	2,517
Interest	526	591	948	1,176	1,358	1,509	1,587	1,689	1,990	2,124
4. Total debt service as percent of current receipts 3/	9.0	9.9	12.1	14.0	16.1	18.0	19.6	20.4	21.6	21.2
Memorandum item:										
U.S. dollar/SDR exchange rate	1.286	1.153	1.093	1.058	1.005	1.048	1.104	1.110	1.127	1.144

Sources: Indian authorities; and staff estimates.

1/ Assuming capital inflows for 1984/85-1989/90 consistent with Scenario I (details in Table 2 of Annex II).

2/ Total payments to the IMF (including to the Trust Fund), assuming an exchange rate of US$1.144 = SDR 1, are projected to be $718 million in 1990/91, $464 million in 1991/92, $326 million in 1992/93, $148 million in 1993/94, and $43 million in 1994/95.

3/ Assuming current account receipts for 1984/85-1989/90 consistent with Scenario I (details in Table 2 of Annex II).

India: Basic Data 1/

Area: 3.27 million sq. kms.
Population/population growth: 748 million (mid-1984 estimate)/2.2 percent
Nominal GDP (1984/85): SDR 182.4 billion; (SDR 244 per capita)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 Staff projections
	(Annual percent change, unless otherwise specified)					
National income and prices						
Real GDP at market prices	6.8	5.2	4.2	7.6	3.6	4.5
Nominal GDP at market prices	18.8	15.3	11.7	17.7	10.0	10.7
GDP deflator	11.2	9.6	7.2	9.3	6.2	6.0
Consumer prices (period average)	11.4	12.5	7.8	12.6	6.4	5.5
Wholesale prices (period average)	18.2	9.3	2.6	9.5	7.1	5.3
Industrial production	4.0	8.6	4.0	5.4	6.3	6.4
External sector (on the basis of US$)						
Exports, f.o.b.	9.7	1.7	-1.1	3.4	3.0	-2.0
Imports, c.i.f.	44.0	-3.5	-6.2	-0.2	-6.7	5.4
Non-oil imports, c.i.f.	30.2	5.6	-0.9	12.7	-6.2	4.9
Export volume	-0.4	2.8	-2.4	3.4	3.1	3.0
Import volume	15.6	-0.2	-5.1	9.8	-5.9	9.3
Terms of trade (deterioration, -)	-11.5	-9.4	-1.7	10.0	-0.8	-1.3
Real effective exchange rate (depreciation, -) (end of period)	5.9	-5.5	1.9	-0.1	-2.9	-4.1 2/
Central Government budget						
Revenue and grants	13.1	21.4	16.2	13.3	21.7	14.0
Total expenditure	19.3	14.2	26.7	12.4	24.7	18.6
Current expenditure	13.1	16.7	21.9	18.3	23.6	18.9
Capital expenditure and net lending	32.5	9.8	35.8	2.4	26.8	18.0
Money and credit (end-period)						
Domestic credit	24.6	19.0	16.9	16.0	19.0	15.0
Government (net)	34.3	19.8	14.1	14.9	20.8	16.0
Private sector	18.5	18.5	18.9	16.7	17.7	14.3
Money and quasi-money (M3)	18.1	13.1	16.5	17.8	18.5	16.0
Velocity (GDP relative to end-of-period M_3)	2.3	2.4	2.2	2.3	2.1	2.0
Interest rate (annual rate, one-year term deposit)	7.5	8.0	8.0	8.0	8.0	8.5
	(In percent of GDP unless otherwise specified)					
Gross domestic investment	24.4	23.9	24.2	23.6	23.4	24.0
Public sector	10.9	11.8	12.1	11.2	12.6	12.4
Private sector	13.5	12.1	12.1	12.4	10.8	11.6
Gross national savings	22.7	22.1	22.6	22.1	22.2	23.5
Public sector	3.6	4.9	4.8	3.7	3.2	4.0
Private sector	19.1	17.2	17.8	18.4	19.0	19.5
Central Government budget						
Tax revenue	7.3	7.8	7.9	7.9	8.2	8.5
Total expenditure	16.5	16.4	18.7	17.6	19.7	21.1
Deficit	6.5	5.8	7.6	7.1	8.3	9.3
Consolidated Central and State Governments deficit	9.3	8.8	10.1	10.0	11.4	10.9
External current account deficit	1.7	1.8	1.6	1.5	1.2	1.5
External debt (including IMF)	11.8	12.3	14.3	14.3	15.5	15.5
Debt service ratio (in percent of current receipts)	9.0	9.9	12.1	14.0	16.1	18.4
	(In billions of US$, unless otherwise specified)					
Exports	8.3	8.5	8.4	8.7	8.9	8.8
Imports	15.9	15.3	14.4	14.4	13.4	14.1
Current account balance	-2.7	-3.0	-2.8	-2.8	-2.2	-3.0
Overall balance of payments	-1.0	-2.5	-1.3	-0.4	0.2	0.2
Gross official reserves (months of imports)	5.5	3.8	4.4	5.2	5.8	5.5
External debt outstanding	18.4	19.5	23.4	26.1	28.4	30.6

1/ Data relate to fiscal years, April 1-March 31.
2/ Change during April-December 1985.

India--Medium-Term Balance of Payments Projections

This annex describes the detailed assumptions for the medium-term balance of payments projections summarized in Table 6 of the staff report.

1. Scenario I (Seventh Plan assumptions)

Scenario I captures the main assumptions made by the Indian authorities in preparing the Seventh Plan (1985/86-1989/90) and derives the implications for external borrowing. Where detailed assumptions made by the Indian authorities are not available, staff estimates have been used, including for the projections of world trade prices.

a. Current account

The Plan envisages an annual export volume growth rate of 6.8 percent, a substantial improvement over recent performance. Manufactured exports are targeted to grow on average by almost 8 percent per annum (compared with GDP growth of 5 percent) and primary exports by 4 percent. Growth projections for some primary goods (including tea) are modest, reflecting supply constraints because of increasing domestic demand or inadequate output growth, or both (Table 1 of Annex II). Much of the export growth is expected to come from engineering goods and chemical products. 1/ With India's markets (as projected by the WEO) growing by about 5.0 percent per annum, a sizable increase in market share is implied by the export projections.

The Plan projects an average annual import volume growth of 5.8 percent (Table 1 of Annex II). Crude oil and petroleum products imports (net of crude oil exports) are projected to rise by an average of 8.3 percent per annum, based on demand increasing by about 6 percent per annum, or only slightly higher than GDP, reflecting conservation policies including energy pricing, and a rise in crude oil production by 3.5 percent per annum to 34.5 million tons by 1989/90. Despite large projected increases in domestic production, imports of manufactured fertilizers and raw materials are expected to rise by an average 10 percent per annum. For iron and steel and edible oils, the beneficial effects of import substitution policies are expected to be reflected in very low increases or in reductions in import requirements. No foodgrain imports are projected throughout the Plan period. Nonbulk imports (comprising about one half of all imports) have been projected to grow by 6 percent per annum, a little higher than GDP.

1/ Achievement of the Plan target would imply growth of 7.8 percent during the next four years with a staff projection of only 3.0 percent in total export volumes during 1985/86, the first year of the Plan.

To convert the Plan's projected trade volumes into current prices, Scenario I uses price projections broadly consistent with those used in preparing the World Economic Outlook exercise. An important exception is the world oil price, for which the Plan assumes little or no change in real terms; for Scenario I, therefore, the world oil price from 1986/87 is assumed to grow in line with the world price of manufactures. In U.S. dollar terms, both export and import prices were projected to fall during 1985/86 by 4.8 and 2.2 percent, respectively, leading to a worsening in the terms of trade. Large price declines in 1985/86 are projected for many primary commodities, most importantly for tea (20 percent), edible oils (29 percent), and petroleum (8 percent). The price of manufactured exports is assumed to fall by 2 percent. With the assumption of a constant real oil price after 1985/86, there would be little change in the terms of trade in 1986/87 and thereafter. Prices for commodity exports (including tea) are assumed to continue weak in 1986/87, while prices of most imports grow broadly in line with the assumed 9.5 percent increase in prices of manufactures. From 1987/88 onward, trade prices are assumed not to diverge greatly from the price of manufactures, which is projected to increase by 3.6 percent in 1987/88 and by 4.5 percent in the last two years of the Seventh Plan.

Detailed figures for the invisibles account are not provided in the Plan documents, although a key assumption is the projection of the nominal levels of expatriate remittances remaining more or less unchanged (despite the assumed increase in the oil price). In Scenario I, net nonfactor services are projected to grow by 7 percent per annum and net transfers (mainly remittances) by only 2 percent per annum. The net investment income account deteriorates quite sharply with little increase in credits, reflecting the small growth in gross reserves and an assumption of LIBOR falling to 7.5 percent in 1987 before returning to 8.0 percent thereafter. Interest payments, on the other hand, rise sharply (details are contained in Appendix Table 4) based on the increased share of commercial borrowing and holdings of nonresident deposits in total debt. 1/

The current account deficit in Scenario 1 averages 1.6 percent of GDP during the Plan period (Table 2 of Annex II).

b. Capital account and financing

The Plan envisages a very small increase of $200 million in the nominal level of gross reserves, which, including gold holdings, stood at $6.4 billion at the end of 1984/85 (equivalent to 5.8 months of imports), to ensure that their level does not fall below the equivalent of 3.5 months of imports. Given the timetable of repurchases to the Fund, the required overall balance rises from $200 million in 1985/86 to

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1/ These payments are included in the staff projections, although generally excluded from projections made by the authorities.

an average $900 million in the last two years of the Plan. The capital account needs to produce large surpluses throughout the Plan period, rising from $3.2 billion in 1985/86 to $5.7 billion in 1989/90.

Gross aid disbursements (including grants) are assumed to average about $3.0 billion during the Plan. The projected disbursements from the World Bank Group and from bilateral and other multilateral sources, together with estimates of additional disbursements from new commitments in the last three years of the Plan, are consistent with the growth in gross aid disbursements averaging 15 percent per annum. The assumed pattern of disbursements allows for a sharp increase in 1986/87 (of 16 percent) and 1987/88 (of 21 percent), after little or no growth between 1983/84 and 1985/86, reflecting the expectation of several large fast-disbursing projects in the next two years. Details of amortization on aid disbursements are provided by the authorities (contained in Appendix Table 4); no amortization is assumed before 1989/90 on commitments made during the Plan period. The consequence of these assumptions is a doubling of net aid receipts to $3.1 billion by 1989/90.

With nonresident deposit inflows (including retained interest payments) continuing to rise by an average 9 percent per annum, other capital outflows averaging $300 million, and taking into account the amortization on already contracted commercial borrowing, gross commercial borrowing would increase from $1.4 billion in 1985/86 to $2.9 billion by the end of the Plan period. 1/ The debt service ratio (taking account of interest payments on nonresident deposits) would rise from 16.1 percent in 1984/85 to over 21 percent by 1989/90, averaging 20.1 percent over the Plan period. The debt service ratio would accelerate further in the first half of the 1990s as the amortization falls due on commercial borrowing undertaken in the 1980s. An extension of the scenario to 1994/95 indicates a debt service ratio rising to about 25 percent.

2. Scenario II

Scenario I contains two assumptions that appear highly optimistic on the basis of present policies--export volume growth averaging 6.8 percent and sharply increasing growth in gross aid disbursements averaging 15 percent. Scenario II (summarized in Table 3 of Annex II) incorporates alternative assumptions. Average export volume growth is reduced to 4.0 percent, with a 3.0 percent increase projected for 1985/86, and 4.3 percent in each year thereafter. The growth of gross aid disbursements is lowered to an average annual rate of 10 percent, though still allowing for an increase in 1986/87 of 16 percent. On the other hand, Scenario I contains several exogenous assumptions which could be pessimistic. The most important is that of a constant real

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1/ All new commercial borrowing is assumed to have a maturity of nine years with a three-year grace period.

world oil price from 1986/87. In addition, the authorities have said that the impact of the import substitution measures could be more far-reaching than assumed in the Plan. In Scenario II the world oil price is assumed to fall sharply in early 1986 and remain at $20 per barrel until the end of 1987 before rising in line with prices of world manufactures. Relative to Scenario I, this implies a fall in the price of oil by $8.3 per barrel in 1986/87. One consequence of lower Middle East oil revenues would be lower receipts for India in the form of nonresident deposits and workers' remittances. For Scenario II, these inflows have been reduced by an average $0.5 billion per annum. In addition, further import substitution and the impact of lower aid disbursements have been assumed, and these assumptions are reflected in a total import volume growth averaging 5.3 percent rather than 5.8 percent in the Plan scenario.

In total, the more optimistic assumptions of Scenario II do not offset entirely the more pessimistic assumptions for exports and aid. Though the average current account deficit would be little changed at 1.5 percent of GDP, commercial borrowing would rise sharply and exceed $3.8 billion in 1989/90. The debt service ratio would rise to 23.3 percent by the end of the Plan, averaging 21.5 percent over the five-year period. Moreover, an extension of the scenario to 1994/95 would indicate a debt service ratio rising to about 29 percent.

3. Scenario III

Scenario III (summarized in Table 4 of Annex II) incorporates the assumptions of Scenario II, but constrains import volumes in such a way that the level of gross commercial borrowing is limited to a maximum of $2 billion per year during the Plan. This, in effect, simulates the effects of failing to improve export performance but of maintaining a prudent limit on commercial borrowing to avoid an unsustainable debt service burden in the 1990s. Import volumes would be constrained to grow by an average 3.8 percent per annum. The implied reduction in GDP growth would depend crucially on the successful implementation of policies to promote efficient import substitution. However, GDP growth of more than 4 percent would be unlikely. Under this scenario, the current account deficit would be reduced to 1.1 percent of GDP by 1989/90, and the debt service ratio would be about 22 percent in the last year of the Plan. An extension of the scenario to 1994/95 indicates a debt service ratio being contained to about 20 percent of current receipts.

4. Sensitivity analysis

Given the uncertainties in projecting exogenous variables, further information is often contained in simulations from a base projection to obtain an indication of the sensitivity of results to marginal changes

in assumptions. Table 5 of Annex II summarizes the results of five such simulations. 1/

a. Decrease in world oil prices

Simulation 1 decreases the world price of crude oil and petroleum products by $1 per barrel below the estimate assumed for 1986/87, and retains this difference in the following years. After allowing for reduced inflows from remittances and nonresident deposits, this reduces the total current account deficit by an annual average of $130 million and, with no other policy response, decreases commercial borrowing and debt service payments. No consequent changes in, for example, import volumes, India's oil production, or world activity have been assumed, though for a sufficiently large change in world oil prices some change would be expected in these variables. An almost equivalent amount is deducted from required commercial financing, with a consequent decrease in the debt service ratio of 0.1 percent of current receipts in 1988/89 and a larger decrease (0.2 percent) by 1989/90.

b. Increase in export prices

Simulation 2 raises the growth rate of U.S. dollar export prices by 1 percentage point over the projected increase in each year for all categories of exports from 1985/86 onward. The simulation begins from 1985/86 because of the very provisional nature of the trade data. The consequent improvement in the terms of trade reduces the need for commercial borrowing. The reduction in the current account deficit (aided by the reduced interest payments on commercial debt) increases from $100 million in 1985/86 to $830 million (0.3 percent of GDP) by 1989/90. Commercial borrowing requirements fall by an additional $50 million by the end of the Plan period, reflecting the lower amortization payments. The debt service ratio falls by up to 1.4 percent of current receipts by 1989/90, reflecting not only the lower interest and amortization payments, but also the higher value of current receipts.

c. Increase in non-oil import prices

Simulation 3 adds 1 percent per annum to the growth in U.S. dollar import prices for all categories of imports, except crude oil and petroleum products. The resulting adverse movement in the terms of trade is somewhat less than 1 percent per annum, reflecting the share of oil in total imports. However, since the value of non-oil imports is higher than that of total exports, the adverse impact of this change on the current account and borrowing is somewhat larger than the beneficial impact of the export price increases assumed in Simulation 2. The

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1/ All simulations are run as changes from Scenario I but there would be little difference in results if shown as changes from the other scenarios, or if the direction of change were different.

increase in the debt service ratio is, however, lower than the reduction implied in Scenario II because the denominator (total current receipts) does not change.

d. Increase in export volumes

Simulation 4 increases the growth rate of all categories of export volumes by 1 percentage point above the projected rate for 1985/86 and the following years. This could be interpreted as the impact of a 1 percent increase in world trade, with India maintaining its market share. The quantitative results are very similar to those of Simulation 2.

e. Increase in LIBOR

Simulation 5 increases the floating interest rate applied to commercial borrowing by 1 percentage point above the projected rate in each year, beginning in 1986/87. Since World Bank and Fund borrowed resources also reflect floating interest rates, the interest rates on these loans are allowed to vary proportionally. Equivalent increases are assumed in interest rates paid on nonresident deposits, and the gross reserves of the Reserve Bank of India. Moreover, since the interest payments on nonresident deposits are assumed to be reinvested, there is an additional capital inflow equivalent to the additional interest payments on the deposits. Reflecting the increased stock of commercial debt during the Plan period, the current account would deteriorate by $100 million in 1986/87, rising to $220 million by 1989/90. The debt service ratio would rise by about 1.0 percent in 1986/87 and 1987/88 and by 1.3 percent in 1989/90.

Table 1. India: Scenario I - Annual Growth Rates of Trade Volumes and Prices, 1985/86-1989/90

(In percent)

	Share of Total Exports or Imports in 1984/85	1985/86-1989/90 Plan Average	
		Volume	Price 1/
Exports			
Primary commodities	23	4.1	0.4
Tea	(7)	(1.4)	(-0.9)
Other 2/	(16)	(5.1)	(1.0)
Manufactures	77	7.5	3.4
Garments	(8)	(8.8)	(4.4)
Engineering goods	(8)	(16.4)	(4.4)
Chemicals and allied products	(7)	(10.0)	(4.4)
Gems and jewelry	(13)	(4.0)	(4.4)
Other 3/	(41)	(5.7)	(2.6)
Total exports	100	6.8	3.0
Imports			
Bulk imports	48	5.0	2.4
Crude oil and petroleum products	(24)	(8.3)	(2.7)
Fertilizers and chemicals	(9)	(8.4)	(3.5)
Iron and steel	(6)	(-1.8)	(4.4)
Edible oils	(5)	(-5.4)	(-4.2)
Other 4/	(4)	(-7.8)	(4.4)
Nonbulk imports 5/	52	6.3	4.4
Total imports	100	5.8	3.6
Of which: Non-oil imports	(76)	(5.0)	(4.0)

Sources: Indian authorities; and staff estimates.

1/ In U.S. dollar terms.
2/ Including coffee, cashew kernels, marine products, iron ore, tobacco, and spices.
3/ Including cotton textiles, leather and leather manufactures, and other manufactures.
4/ Including nonferrous metals and foodgrains.
5/ Including gems and jewelry, machinery and transport equipment, and other goods.

Table 2 . India: Scenario 1 - Medium-Term Projections, 1983/84-1989/90

(In millions of U.S. dollars)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Trade balance	-5,693	-4,467	-5,242	-5,768	-6,102	-6,474	-6,852
Exports, f.o.b.	(8,667)	(8,931)	(9,074)	(10,376)	(11,520)	(12,878)	(14,396)
Percent change	3.4	3.0	1.6	14.3	11.0	11.8	11.8
Imports, c.i.f.	(-14,360)	(-13,398)	(-14,317)	(-16,144)	(-17,621)	(-19,351)	(-21,248)
Percent change	-0.2	-6.7	6.9	12.8	9.2	9.8	9.8
Invisibles balance	2,922	2,310	2,200	2,238	2,243	2,070	2,054
Nonfactor services	(1,089)	(832)	(778)	(856)	(941)	(1,036)	(1,139)
Net investment income	(-727)	(-866)	(-1,008)	(-1,098)	(-1,228)	(-1,496)	(-1,625)
Transfers	(2,560)	(2,444)	(2,430)	(2,480)	(2,530)	(2,530)	(2,540)
Current account	-2,772	-2,157	-3,042	-3,530	-3,859	-4,404	-4,797
Capital account	2,343	2,357	3,240	4,032	4,666	5,360	5,652
Net aid	1,602	1,410	1,548	1,764	2,248	2,769	3,123
Loans	(1,308)	(1,107)	(1,249)	(1,472)	(1,956)	(2,477)	(2,831)
Disbursements	1,905	1,652	1,852	2,208	2,736	3,273	3,639
Amortization	-595	-546	-602	-736	-780	-796	-808
Grants	(293)	(303)	(299)	(292)	(292)	(292)	(292)
Commercial borrowing, net	533	930	1,051	1,751	1,986	2,105	1,980
Disbursements	(794)	(1,259)	(1,445)	(2,227)	(2,453)	(2,735)	(2,909)
Amortization	(-261)	(-330)	(-394)	(-476)	(-467)	(-630)	(-929)
Bilateral arrangements	194	164	41	--	--	--	--
Nonresident deposits	558	609	699	767	782	886	949
Other capital	-543	-756	-100	-250	-350	-400	-400
Overall balance	-428	200	197	502	807	956	854
Monetary movements	428	-200	-197	-502	-807	-956	-854
Net use of Fund credit	(1,305)	(67)	(-207)	(-476)	(-782)	(-906)	(-779)
Gross reserves (- = increase)	(-877)	(-267)	(10)	(-26)	(-25)	(-50)	(-75)
Memorandum items:							
Current account/GDP	-1.5	-1.2	-1.5	-1.6	-1.6	-1.6	-1.6
End-year reserves (US$ mn.) 1/	6,167	6,434	6,424	6,450	6,475	6,525	6,600
End-year reserves (in months of imports, c.i.f.)	5.2	5.8	5.4	4.8	4.4	4.0	3.7
Debt service payments (US$ mn.)	2,103	2,366	2,713	3,275	3,717	4,322	4,641
Debt service ratio 2/	14.0	16.1	18.0	19.6	20.4	21.6	21.2
World oil price (US$/barrel)	28.55	28.00	25.86	28.32	29.34	30.66	32.04
Terms of trade (% change) 3/	10.0	0.8	-2.7	-0.3	--	0.1	0.1

Sources: Indian authorities; and staff estimates.

1/ Gross reserves, including gold holdings valued at SDR 35 per troy ounce.
2/ As a proportion of current receipts.
3/ Ratio of average value indices.

Table 3. India: Scenario II - Medium-Term Projections, 1983/84-1989/90

(In millions of U.S. dollars)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Trade balance	-5,693	-4,467	-5,448	-5,092	-5,458	-5,951	-6,482
Exports, f.o.b.	(8,667)	(8,931)	(8,750)	(9,756)	(10,569)	(11,528)	(12,574)
Percent change	3.4	3.0	-2.0	11.5	8.3	9.1	9.1
Imports, c.i.f.	(-14,360)	(-13,398)	(-14,198)	(-14,848)	(-16,027)	(-17,479)	(-19,056)
Percent change	-0.2	-6.7	6.0	4.6	7.9	9.1	9.0
Invisibles balance	2,922	2,310	2,324	1,873	1,902	1,720	1,683
Nonfactor services	(1,089)	(832)	(902)	(856)	(941)	(1,036)	(1,139)
Net investment income	(-727)	(-866)	(-1,008)	(-1,096)	(-1,174)	(-1,451)	(-1,599)
Transfers	(2,560)	(2,344)	(2,430)	(2,113)	(2,135)	(2,135)	(2,143)
Current account	-2,772	-2,157	-3,124	-3,219	-3,556	-4,231	-4,800
Capital account	2,343	2,357	3,321	3,722	4,362	5,187	5,654
Net aid	1,602	1,410	1,548	1,764	1,911	2,069	2,341
Loans	(1,308)	(1,107)	(1,249)	(1,472)	(1,619)	(1,777)	(2,049)
Disbursements	1,905	1,652	1,852	2,208	2,399	2,573	2,857
Amortization	-596	-546	-602	-736	-780	-796	-808
Grants	(293)	(303)	(299)	(292)	(292)	(292)	(292)
Commercial borrowing, net	533	930	1,132	1,560	2,140	2,769	2,911
Disbursements	(794)	(1,259)	(1,527)	(2,036)	(2,607)	(3,413)	(3,821)
Amortization	(-261)	(-330)	(-394)	(-476)	(-467)	(-643)	(-911)
Bilateral arrangements	194	164	41	--	--	--	--
Nonresident deposits	558	609	699	648	661	749	802
Other capital	-543	-756	-100	-250	-350	-400	-400
Overall balance	-428	200	197	502	807	956	854
Monetary movements	428	-200	-197	-502	-807	-956	-854
Net use of Fund credit	(1,305)	(67)	(-207)	(-476)	(-782)	(-906)	(-779)
Gross reserves (- = increase)	(-877)	(-267)	(10)	(-26)	(-25)	(-50)	(-75)
Memorandum items:							
Current account/GDP	-1.5	-1.2	-1.6	-1.4	-1.4	-1.5	-1.6
End-year reserves (US$ mn.) 1/	6,167	6,434	6,424	6,450	6,475	6,525	6,600
End-year reserves (in months of imports, c.i.f.)	5.2	5.8	5.4	5.2	4.8	4.5	4.2
Debt service payments (US$ mn.)	2,103	2,366	2,713	3,273	3,663	4,291	4,597
Debt service ratio 2/	14.0	16.1	18.4	20.8	21.7	23.5	23.3
World oil price (US$/barrel)	28.55	28.00	24.99	20.00	20.23	21.14	22.09
Terms of trade (% change) 3/	10.0	0.8	-1.9	6.7	0.4	0.1	0.1

Sources: Indian authorities; and staff estimates.

1/ Gross reserves, including gold holdings valued at SDR 35 per troy ounce.
2/ As a proportion of current receipts.
3/ Ratio of average value indices.

Table 4. India: Scenario III - Medium-Term Projections, 1983/84-1989/90

(In millions of U.S. dollars)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Trade balance	-5,693	-4,467	-5,366	-5,082	-5,060	-4,868	-5,030
Exports, f.o.b.	(8,667)	(8,931)	(8,750)	(9,756)	(10,569)	(11,528)	(12,574)
Percent change	3.4	3.0	-2.0	11.5	8.3	9.1	9.1
Imports, c.i.f.	(-14,360)	(-13,398)	(-14,116)	(-14,838)	(-15,629)	(-16,396)	(-17,604)
Percent change	-0.2	-6.7	5.4	5.1	5.3	4.9	7.4
Invisibles balance	2,922	2,310	2,324	1,879	1,903	1,752	1,816
Nonfactor services	(1,089)	(832)	(902)	(856)	(941)	(1,036)	(1,139)
Net investment income	(-727)	(-866)	(-1,008)	(-1,090)	(-1,173)	(-1,419)	(-1,466)
Transfers	(2,560)	(2,344)	(2,430)	(2,113)	(2,135)	(2,135)	(2,143)
Current account	-2,772	-2,157	-3,042	-3,203	-3,157	-3,116	-3,214
Capital account	2,343	2,357	3,239	3,686	3,755	3,788	3,851
Net aid	1,602	1,410	1,548	1,764	1,911	2,069	2,341
Loans	(1,308)	(1,107)	(1,249)	(1,472)	(1,619)	(1,777)	(2,049)
Disbursements	1,905	1,652	1,852	2,208	2,399	2,573	2,857
Amortization	-596	-546	-602	-736	-780	-796	-808
Grants	(293)	(303)	(299)	(292)	(292)	(292)	(292)
Commercial borrowing, net	533	930	1,051	1,524	1,533	1,370	1,108
Disbursements	(794)	(1,259)	(1,445)	(2,000)	(2,000)	(2,000)	(2,000)
Amortization	(-261)	(-330)	(-394)	(-476)	(-467)	(-630)	(-892)
Bilateral arrangements	194	164	41	--	--	--	--
Nonresident deposits	558	609	699	648	661	749	802
Other capital	-543	-756	-100	-250	-350	-400	-400
Overall balance	-428	200	197	483	598	672	637
Monetary movements	428	-200	-197	-483	-598	-672	-637
Net use of Fund credit	(1,305)	(67)	(-207)	(-476)	(-782)	(-906)	(-779)
Gross reserves (- = increase)	(-877)	(-267)	(10)	(-7)	(184)	(234)	(142)
Memorandum items:							
Current account/GDP	-1.5	-1.2	-1.5	-1.4	-1.3	-1.1	-1.1
End-year reserves (US$ mn.) 1/	6,167	6,434	6,424	6,431	6,247	6,013	5,871
End-year reserves (in months of imports, c.i.f.)	5.2	5.8	5.5	5.2	4.8	4.4	4.0
Debt service payments (US$ mn.)	2,103	2,366	2,713	3,266	3,653	4,215	4,394
Debt service ratio 2/	14.0	16.1	18.4	20.7	21.6	23.1	22.3
World oil price (US$/barrel)	28.55	28.00	24.99	20.00	20.23	21.14	22.09
Terms of trade (% change) 3/	10.0	0.8	-1.3	6.1	0.7	0.5	0.3

Sources: Indian authorities; and staff estimates.

1/ Gross reserves, including gold holdings valued at SDR 35 per troy ounce.
2/ As a proportion of current receipts.
3/ Ratio of average value indices.

Table 5. India: Sensitivity of Medium-Term Balance of Payments to Changes in Assumptions

(In millions of U.S. dollars)

	1985/86		1986/87		1987/88		1988/89		1989/90		Annual Average 1/	
1. Gross impact of a decrease in oil prices of US$1 per barrel on:												
a. Current account, US$ mn. (percent of GDP)	...	(...)	140	(0.1)	160	(0.1)	190	(0.1)	210	(0.1)	180	(0.1)
b. Gross commercial borrowing (US$ mn.)	...		-140		-160		-190		-240		-180	
c. Debt service ratio, percent of current receipts	...		--		-0.1		-0.1		-0.3		-0.1	
Net impact on:												
a. Current account (US$mn.) 2/	...		100		120		140		160		130	
b. Gross commercial borrowing (US$ mn.)	...		-90		-110		-130		-160		-120	
c. Debt service ratio	...		--		--		-0.1		-0.2		-0.1	
2. Effect of an extra increase in export prices of 1 percent per annum on:												
a. Current account, US$ mn. (percent of GDP)	100	(--)	220	(0.1)	370	(0.2)	570	(0.2)	830	(0.3)	410	(0.2)
b. Gross commercial borrowing (US$ mn.)	-100		-220		-370		-590		-880		-430	
c. Debt service ratio, percent of current receipts	-0.1		-0.3		-0.5		-0.9		-1.4		-0.6	
3. Effect of an extra increase in non-oil import prices of 1 percent per annum on:												
a. Current account, US$ mn. (percent of GDP)	-110	(--)	-250	(0.1)	-420	(0.2)	-640	(0.2)	-900	(0.3)	-460	(0.2)
b. Gross commercial borrowing	110		250		420		650		960		480	
c. Debt service ratio, percent of current receipts	--		0.1		0.2		0.4		0.8		0.3	
4. Effect of an extra export volume growth of 1 percent per annum on:												
a. Current account, US$ mn. (percent of GDP)	80	(--)	200	(0.1)	360	(0.2)	570	(0.2)	850	(0.3)	410	(0.2)
b. Gross commercial borrowing	-80		-200		-360		-580		-890		420	(0.2)
c. Debt service ratio, percent of current receipts	-0.1		-0.3		-0.5		-0.9		-1.4		-0.6	
5. Effect of an increase in LIBOR by 1 percent on:												
a. Current account, US$ mn. (percent of GDP)	...	(...)	-100	(--)	-140	(-0.1)	-190	(-0.1)	-220	(-0.1)	-160	(-0.1)
b. Gross commercial borrowing	...		100		100		130		180		130	
c. Debt service ratio, percent of current receipts	...		0.9		1.0		1.2		1.3		1.1	

Source: Staff estimates.

1/ The average of 1986/87 to 1989/90 for simulations 1 and 5; the average of 1985/86 to 1989/90 for simulations 2, 3 and 4.

2/ After allowance for lower transfers and nonresident deposits, half of which are assumed to come from oil exporting countries. The percentage decline in the flows from oil exporting countries is assumed to equal the percentage fall in the oil price.

India: Fund Relations
(As of January 31, 1986)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership Status

(a)	Date of membership:	December 27, 1945
(b)	Status:	Article XIV

A. FINANCIAL RELATIONS

II. General Department

(a)	Quota:	2,207.7
(b)	Fund holdings of rupees:	5,489.4 (248.6 percent of quota).
(c)	Fund credit:	3,768.7 (170.7 percent of quota).
	EFF:	1,950.0 (88.3 percent of quota).
	Supplementary financing under EFF:	1,162.5 (52.7 percent of quota).
	Enlarged access under EFF:	656.2 (29.7 percent of quota).
(d)	Reserve tranche position:	487.1
(e)	Remuneration position	252.1
(f)	Current operational budget:	Not included.
(g)	Lending to the Fund:	None.

III. Stand-By and Extended Arrangements and Special Facilities

(a)	Current stand-by or extended arrangement:	None.
(b)	Previous stand-by or extended arrangements:	The three-year extended arrangement for SDR 5,000 million (291 percent of old quota) approved on November 9, 1981 was cancelled by the authorities, effective May 1, 1984. Purchases under the arrangement totaled SDR 3,900 million, including SDR 1,467 million drawn in 1983 and SDR 567 million drawn in 1984. There were no other arrangements with the Fund during the last ten years.

India: Fund Relations (continued)

(c)	Special facilities:	India last used the Fund's special facilities in 1980 when there was a compensatory financing purchase of SDR 266 million.

IV. SDR Department

(a)	Net cumulative allocation:	681.2
(b)	Holdings:	157.5 (23.1 percent of net cumulative allocation)
(c)	Current Designation Plan:	Not included.

V. Administered Accounts

(a)	Trust Fund loans	
	(i) Disbursed:	529.01
	(ii) Outstanding:	529.01
(b)	SFF Subsidy Account	
	(i) Donations and loans to Fund:	None.
	(ii) Payments by Fund:	82.8

VI. Overdue Obligations to the Fund

None.

B. NONFINANCIAL RELATIONS

VII. Exchange Rate Arrangements

The Indian rupee is linked to a basket of currencies with 5 percent margins. The intervention currency is the pound sterling. India maintains extensive exchange restrictions which are subject to Article XIV. India has one restriction on the making of payments and transfers for current international transactions--a bilateral payments arrangement with a Fund member (Romania)--which is subject to approval under Article VIII, Section 2.

India: Fund Relations (concluded)

VIII. Last Article IV Consultation

Article IV consultation and EFF review discussions were held on the standard 12-month cycle during November 2-17, 1984. The staff report (SM/85/27, 1/25/85) was discussed by the Board on February 22, 1985, and the following Decision No. 7911-(85/28) was adopted:

1. The Fund takes this decision relating to India's exchange measures subject to Article VIII, Section 2, and in concluding the 1985 Article XIV consultation with India, in light of the 1985 Article IV consultation with India conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions described in SM/85/41 are maintained by India in accordance with Article XIV, except that the restriction arising under the remaining bilateral payments agreement with a Fund member is subject to approval under Article VIII, Section 2. The Fund encourages the authorities to terminate the bilateral payments arrangement with a Fund member as soon as possible and to further simplify the exchange system.

IX. Technical Assistance

None has been provided by the Fund during the last three years.

X. Resident Representative/Advisors

None.

The World Bank's Current Strategy for Operations in India

The thrust of Bank Group assistance to India has been consistent with the country's development objectives in its support of agriculture, energy, and infrastructure. Of particular importance have been investments in irrigation, extension, and on-farm development designed to increase agricultural productivity and efforts to improve the availability of basic agricultural inputs to farmers through credit, fertilizer, marketing, storage, and seed projects. Major elements of the lending program have also been directed at railways and telecommunications projects and at helping to meet the energy needs of the economy while curbing the growth of oil imports, and to ease the infrastructure bottlenecks which have hampered distribution. The Bank Group has also provided financing for a broad range of medium- and small-scale industrial enterprises, primarily in the private sector, through its support of development finance institutions. Recognizing the importance of improving the ability to satisfy the essential needs of urban and rural populations, the Bank Group has supported nutrition and family planning programs, a rural roads project, as well as water supply and sewerage and other urban infrastructure projects.

Since 1949, the Bank Group has made 91 loans and 182 development credits to India totaling $8,487 million and $13,753 million (both net of cancellation), respectively. Of these amounts, $1,544 million has been repaid, and $7,360 million was still undisbursed as of September 30, 1985. In addition, IFC has made 35 commitments since 1959 totaling $301 million, of which a total of $168 million has been repaid, sold, terminated, or cancelled. Of the balance of $133 million, $126 million represents loans and $7 million equity.

This pattern of assistance remains highly relevant, and consonant with government priorities, as reflected in the Seventh Plan. First, high priority will continue to be given to the agricultural program. While India has made significant progress in agriculture, productivity growth will have to be sustained to improve the balance between food demand and supply and to contribute to poverty alleviation and employment. Thus, the Bank Group will continue to support irrigation, fertilizer production and distribution, and agricultural extension and credit. Second, alongside the Government's efforts in promoting greater efficiency and faster development of the industrial sector, increased assistance will be provided for industrial development. Third, in line with the emphasis which the Seventh Plan gives to the expansion and more efficient use of basic infrastructure capacity and to the development of India's indigenous hydrocarbon resources, the Bank Group will continue to provide substantial support to the development of the energy, transport, and telecommunications sectors to alleviate critical shortages which constrain output in both the agricultural and industrial sectors. Fourth, support of urban development and other basic social

services programs for the poor will also continue in light of the growth in population which, despite successes in lowering birth and death rates, still increases by about 16 million each year.

India continues to require a substantial level of foreign assistance both to offset the overall deterioration in the world trade environment and to sustain the relatively higher investment and growth rates achieved during the Sixth Plan period. As in the past, Bank Group assistance for projects in India would aim to include the financing of local expenditures. India imports relatively few capital goods because of the capacity and competitiveness of the domestic capital goods industry. Consequently, the foreign exchange component tends to be small in most projects. This is particularly the case in such high-priority sectors as agriculture and irrigation.

India's poverty and needs are such that whenever possible, external capital requirements should be provided on concessional terms. Accordingly, the bulk of the Bank Group assistance in the past was provided from IDA. However, IDA lending to India is declining from a peak of $1.5 billion in FY80, mostly due to funding constraints related to IDA. The amount of IDA funds available to India is likely to remain small in relation to India's needs for external support. Thus, this requirement for additional assistance will have to be met, in part, through large Bank lending. Given its development prospects and policies, India is judged creditworthy for Bank lending to supplement IDA assistance.

India: Financial Relations with World Bank Group
(As of September 30, 1985)

	US$ Million		
	IBRD	IDA	TOTAL
Loans/credit fully disbursed	2,528.9	5,938.9	8,467.8
Present commitments 1/			
Agriculture	278.2	3,855.7	4,133.9
Power	2,606.2	1,713.0	4,319.2
Energy	747.3	--	747.3
Industry	1,251.6	399.1	1,650.7
Transportation	930.7	425.0	1,355.7
Water supply and sewerage, urban	24.1	908.0	932.1
Telecommunications	120.0	314.0	434.0
Other	--	199.0	199.0
Subtotal	5,958.1	7,813.8	13,771.9
Total fully disbursed and present commitments	8,487.0	13,752.7	22,239.7
Repayments	1,324.5	219.7	1,544.2
Total now held by Bank	7,162.5	13,533.0	20,695.5
Total disbursed and outstanding	3,275.3	10,059.7	13,335.0
Total undisbursed	3,887.2	3,473.3	7,360.5
IFC investment now held			132.9

Recent economic work: The economic report "India--Structural Changes and Development Perspectives" (No. 5593-IN) was issued on April 24, 1985. The next country economic memorandum is to be issued in April 1986.

Aid Consultative Group: The last meeting of the India Consortium was held in Paris on June 18-19, 1985. The next meeting is scheduled for June 1986.

1/ Includes effective loans and those approved as of September 30, 1985.

India: Statistical Issues

1. Outstanding statistical issues

The main sources of the statistics used in the report are the Central Statistical Office, the Reserve Bank of India, and the Ministry of Finance. A major problem is the delay in compiling many of the figures so that for recent periods it has been necessary to make estimates. The reliability of these estimates varies according to lags in the availability of data. Apart from delays in compilation, the financial data base is generally comprehensive. There are the following specific problems with the data:

a. National accounts

The latest year for which national accounts data have been reported is 1984/85. Official estimates of investment are subject to wide variation and are of uncertain reliability, particularly with respect to changes in stocks and price deflators.

b. Prices and production

The consumer price index (1960 = 100) is based on a household expenditure survey conducted in 1958/59, which is now outdated. A new index is being established, based on the Labor Bureau's 1981/82 expenditure survey. The wholesale price index (1970/71 = 100) and the industrial production index (1970/71 = 100) are also in the process of revision.

c. Government finance

For the central government, partial annual data through 1984/85 are available in IFS and complete annual data through 1983/84 have been published in the 1985 Government Finance Statistics Yearbook. The 1985 Yearbook shows data for the consolidated general government through 1982/83, but the coverage is limited to the central and state governments. Comprehensive and consolidated data for local authorities are compiled for eight states only. Further efforts are needed to compile data for local authorities in the remaining states, especially for urban local bodies, where chances for progress are greatest, but also rural local bodies. Efforts to develop such local government data should be encouraged.

d. Monetary accounts

Data for the monetary sector are fairly current; however, those for the development banks and life insurance companies have not been

provided since the second quarter of 1978 and third quarter of 1984, respectively.

All data relate to the last Friday of the period, except for March where Reserve Bank data relate to March 31 after the close of the government accounts. As a result, it should be noted that transactions between the Reserve Bank and the commercial banks between the last Friday of March and March 31 can influence the reported credit significantly.

e. Merchandise trade

There is at least a six-month lag in the production of aggregate data on import and export values and even these data are subject to constant upward revision during the ensuing 18 months, as late returns are received. Efforts are made to estimate the missing returns, but variability in data reporting lags makes the estimates of trade growth subject to considerable uncertainty.

Official data on export and import prices and volumes are available with lags of two or three years. There are discrepancies between the monthly index series and the annual series compiled on a fiscal year basis owing to differences in coverage.

f. Balance of payments

The primary source of balance of payments data is the exchange record, but no official data were available to the last consultation mission beyond 1983/84. Unofficial estimates were prepared by the authorities for subsequent years based on partial or aggregate data, which are not comparable with the official series. Data are reported for IFS on a quarterly basis, so that the annual figures appearing there are on a calendar year basis (instead of the end-March year basis used in the consultation reports); however, the lag in the data is over 18 months.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for India in the February 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Reserve Bank of India, which during the past year have been provided on a timely basis, although there is an urgent need for reducing the lag in the availability of data on external trade index numbers and the balance of payments.

	Status of IFS Data	Latest Data in February 1986 IFS
Real sector	National accounts	1983/84 1/ (Partial)
	Prices: Consumer	September 1985
	Wholesale	November 1985
	Production: Industrial	September 1985
	Employment	n.a.
	Earnings	n.a.
Government finance	Deficit/surplus	1984/85 1/
	Financing	1984/85 1/
	Debt	1984/85 1/
Monetary accounts	Monetary authorities	October 1985
	Deposit money banks	October 1985
	Other financial institutions	Q3 1984
External sector	Merchandise trade:	
	Value (Imports)	August 1985
	(Exports)	August 1985
	Volume	1980
	Unit values	1980
	Balance of payments	Q1 1984
	International reserves	September 1985
	Exchange rates	December 1985

1/ Fiscal year ending March 31.