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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CURRENT SITUATION AND SHORT-TERM PROSPECTS OF THE INDIAN ECONOMY

January 2, 1968

Asia Department

CURRENCY EQUIVALENTS

1 Indian Rupee	U.S. $0.13
1 U.S. Dollar	Rs. 7.5
1 lakh	100 thousand
1 crore	10 million

The Indian financial year runs from April 1st to March 31st.

This report was prepared by a mission comprising Messrs. William M. Gilmartin (Chief of Mission), Jean Baneth, Stanley Please, E. Bevan Waide, Robert Picciotto, Basil G. Kavalsky and Timothy P. Lankester. Kenneth Bohr and Romano Pantanali of the IBRD Office in New Delhi participated in the field investigations of the mission.

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BASIC DATA

Area: 1,262,000 sq. miles

Population, 1967: 510 million (approx. est.)

Rate of growth, 1962 - 1966: 2.5% p.a.
1951 - 1961: 2.0% p.a.

Political status: Independent since 1947.

Gross national product at market prices, 1966/67: Rs. 267 billion (est.).

Rate of growth at constant prices, 1960/61 - 1964/65: 4.7% p.a.
1964/65: +7.7%
1965/66: -3.7%
1966/67: +2.6%

Per capita, 1966/67: US $71 1/

Gross domestic product at factor cost, 1966/67: Rs. 242 billion (est.).

Percentage breakdown in 1965/66: 2/	Agriculture:	45
	Mining:	1
	Manufacturing:	19
	Commerce & transport:	17
	Government & other services:	18

Percent of GDP at market prices:

	1955/56 - 1962/63	1965/66	1966/67
Gross investment	10	15	14
Gross savings	8	12	10
Balance of payments current account deficit	2	3	4
Investment income payments	1	1	1
Government (consolidated Centre/States) current revenues	15	16	15
Resource gap as % of investment:	17	20	27

Money and credit:

Conversion: 1 rupee = $ 0.13 1/

1 $ = 7.50 rupees

Rs. billion	March 1967 (Last Friday)	1963/64 - 1966/67 Average Rate of Increase (%)
Total money supply	49.54	9.8
Time and savings deposits	27.09	15.4
Bank credit to pvt. sector	30.62	14.4
	1965/66 - 1966/67 4/	
Rate of increase in prices:		
Consumer prices 3/:	13.0%	11.7
Wholesale:	15.8%	12.3

Public sector operations (Rs. billion):	1966/67 (est.)	1960/61 - 1965/66 Annual Average
Public sector plan outlay	22.21	17.26
Balance from current revenues plus surpluses of public enterprises 5/	3.45	5.77
Total external assistance to public sector	9.00	4.91

External public debt, excluding suppliers' credits (US $ million):	1966/67	1962/63 - 1965/66 Annual Average
Total debt outstanding 6/	7,318	5,062
Total annual debt service	319	245

Balance of Payments (US $ million):	1966/67	1960/61 - 1966/67 Average Rate of Increase (%)
Total exports	1,558	2.8
Total imports	2,892	4.1
Invisibles 7/	66	
Current account deficit 7/	-1,400	5.8

		1960/61 - 1964/65 Annual Average
Commodity concentration of exports 8/	41%	49%
Debt service ratio 9/	24%	13%
Gross foreign exchange reserves 6/	$638 million (or 2.6 months' imports)	$610 million (or 3.1 months' imports)

IBRD AND IDA OPERATIONS (US $ million)

A. Past operations	Amount committed 10/	Amount disbursed 10/
IBRD	997.8	845.5
IDA	889.1	699.8
Total	1,886.9	1,545.3

B. Terms of IBRD/IDA operations (January 1, 1961 - October 31, 1966)	Weighted average		
	Rate of interest (p.a.)	Grace period (years)	Repayment period (years)
	2.16	8.7	41.3

1/ Exchange rate of Rs. 7.50 = US $1.00 adopted June 6, 1966; prior rate was Rs. 4.76 = US $1.00

2/ Percentages calculated on the basis of net domestic product, 1960/61 prices.

3/ Working class consumer price index.

4/ March 1966 to March 1967.

5/ This is somewhat different from public savings. The necessary information for arriving at the latter for 1966/67 is not yet available.

6/ At end of fiscal years.

7/ Preliminary estimate.

8/ Jute, tea, and cotton yarn and manufactures.

9/ Total service on all debt (including suppliers' credits) is estimated at $374 million for 1966/67: i.e. $319 million on public debt (excluding suppliers' credit), and $55 million on suppliers' credits and any other debt items. See Table XVI for estimates for earlier years.

10/ Total loans and credits net of cancellations as of August 31, 1967.

SUMMARY AND CONCLUSIONS

i. Even for a country as accustomed to economic difficulty as India, the present situation of the Indian economy can be described as unusually difficult. After two years of bad harvests, food is scarce and increasingly expensive. Led by food prices, the overall price level has been rising by about 15% a year. And for reasons mainly attributable directly or indirectly to the successive harvest failures, Indian industry is depressed. Industrial production as a whole has not actually fallen but neither has it increased much over the last two years. And many lines of manufacturing are suffering from unutilized capacity, rising inventories and poor earnings.

ii. The troubles of manufacturing can partly be blamed on shortages of agricultural raw materials and partly to slack demand. Some of the slack demand reflects the fact that the urban population has less to spend on manufactured goods because food prices are so high. The other weak element in demand is the curtailment of government development expenditure as part of the fiscal effort to combat rising prices.

iii. The combination of price inflation and general recession has resulted in a marked deterioration in the budgetary situation. The recession has adversely effected government revenue whilst government costs have increased. In a determined effort to combat inflation the government is trying to hold expenditure in check in order to limit the extent of Reserve Bank financing. Given the rise in expenditure on debt service and government services, as well as the emergency expenditure incurred for famine relief and food subsidies, development expenditure and particularly publicly financed investment expenditure has had to take the brunt of the government's policy of budgetary restraint. This fall in government financed investment - public and private - has been a major contributor to the industrial slump, especially in the capital goods industries where the slump is most severe.

iv. As always in India the immediate economic future rides on the harvest. Weather for the main crop in the Autumn (kharif) has been satisfactory. If this is repeated for the Spring (rabi) crop there are good chances for a record foodgrain harvest for 1967/68 as a whole, as a result of the combination of a favorable monsoon and the program of agricultural improvements. This obviously will be a great boon to India and should start an economic recovery process.

v. From the standpoint of India's balance of payments and external aid requirements the important question in all this is the rate of economic recovery that can be expected. This year India has been managing with foreign assistance largely limited to food supplies and to disbursements of aid committed from previous years. Although most members of the Consortium intimated at least the first part of their pledges early this year, the absolute amount of new aid commitments this year has been smaller so far, largely because of the unavailability of IDS funds and delay in U.S. aid appropriations. Nevertheless, it should be possible to get by this year without using reserves, provided a large part of the new aid commitments can be made available quickly against this year's disbursements. The reason for reduced new aid requirements this year, despite liberal import

licensing policies, is that import demand is low because of the economic depression associated with the curbs on public investment expansion.

vi. This depressed situation is unlikely to continue if there is a good crop. In this event, and if liberal importing of industrial materials is to continue, next year's imports are likely to go up faster than exports. Hence new aid requirement will also go up and additional aid commitments should be made this year which are well beyond this year's cash requirements to ensure that next year's aid disbursements will be adequate. Otherwise, foreign exchange can become an early constraint on the recovery in circumstances in which liberal import policies will be difficult to sustain.

vii. How rapidly will import demand and aid requirements increase? Forecasts of this are difficult in the best of circumstances and especially difficult in the Indian situation because of inadequate knowledge about some of the key elements of the problem. Little is known about the marketed proportion of crops, the state of food stocks and how much of a good crop will go into rebuilding of stocks and pipelines, how much food can and should go into an official buffer stock, and therefore how much of a good crop will be available for commercial consumption. This and some idea of food import prospects are essential to a judgment about the effect of a good crop on food prices. Food price prospects are probably the most important consideration at the moment in deciding how much relaxation, if any, the government will feel able to make in financial policies, and what is likely to be the course of both consumption and investment demand. The response of industrial production and industrial import demand to any particular pattern of demand recovery is also important but difficult to foresee, especially because of limited information about existing stocks of imported and domestic products and about the pattern of utilization of outstanding import licenses.

viii. With all these and other uncertainties we can only venture a judgment, which is, that with a good crop, the recovery process should get started towards the end of this fiscal year. Room for substantial financial improvement and accelerated recovery will probably have to await the impact on prices of a second good crop, and, therefore, given another favorable monsoon, the real momentum of recovery will probably not materialize before the late Summer or Autumn of 1968. Nevertheless, a substantial increase in import requirements is likely next year which, if present import policies are to be continued, will require considerably larger aid commitments and disbursements. Whereas we would assess disbursements needed this year from new non-food non-project aid commitments to be about $300 million, we would expect the comparable figure next year to increase to about $550 million. With a good crop, next year's food import requirements will of course be smaller. However, taking account of probable farm restocking and increased consumption, the rebuilding of commercial pipelines, and the need for an official buffer stock, food import requirements will still be substantial. Something in the order of 6 million tons would appear to be a reasonable assessment of the 1968/69 requirements. It would of course be most desirable for India to know as far in advance as possible the food

aid picture for next year because of its overriding importance for the planning of financial policies and domestic food procurement and distribution policies.

ix. There is a further aid consideration, arising out of the relationship between new investment and the level of operations of the capital goods industries. The latter depends on demand from the former and since both require external finance, aid for one complements aid for the other. An aid program adequate to allow for higher levels of operation in the capital goods industries and a higher level of project investment should include both non-project and project assistance. It is important therefore in consideration of next year's aid requirements to resume a larger scale of project financing.

x. It is also the purpose of this report to review some of the important aspects of economic development policy, and comments are included in the report on agricultural programs, administrative controls, family planning and export problems. In agriculture, improved farmer incentives and farmer acceptance of new agricultural techniques is most encouraging. So also is the progress of the new techniques in wheat and rice cultivation including provision of necessary farm inputs. There are however serious weaknesses in the agricultural program. Progress on domestic fertilizer production is very slow and nothing like the production aims for 1970-71 are in prospect. Consequently, the agricultural program, as it expands, will need much larger fertilizer imports than expected, and this will tax exchange availabilities and the dedication to the program in the face of competing requirements. Other lagging or uncertain elements of the program which need administrative improvement are the production of more and better hybrid seed for bajra and jowar and more active programs of farm credit and irrigation so that these do not become bottlenecks as the agricultural program expands.

xi. The family planning program continues to make encouraging progress with the full support of the Central and most State Governments. The program is handicapped by shortages of trained personnel and has run into some regional setbacks. Such developments were to be expected, however, and the program is being expanded and diversified, in terms of contraceptive methods, under capable direction and administration. Numbers of contracepting couples are estimated to have more than doubled since the start of the program in mid-1965. This, however, is from a very small base and the gains so far constitute only a modest but encouraging advance in the face of India's huge population problem.

xii. Liberalization of administrative controls has not gone very far beyond the advances described in the last economic report. Import requirements of industries representing about 85% of industrial production continue to be licensed fully, although with the important proviso that goods of a kind to be found in India are not eligible for license. Indian industry is thus fully shielded from foreign competition and this kind of protection has if anything been tightened in recent months. This is hardly conducive to

the development of efficient and internationally competitive industry in India. Increased internal competition will nevertheless help in this respect, and the liberalized licensing policy together with other measures of greater production freedom should encourage Indian industries to compete with one another. While some further liberalization would undoubtedly be desirable, for the time being, the question is really whether the present import policy can be sustained in the course of economic recovery.

xiii. Perhaps the most discouraging aspect of the recent performance of the Indian economy has been that of exports. They dropped off last year and have not yet fully recovered this year. Nor is there much evidence of real ferment in the export sectors which would promise substantial improvement later on. A number of factors, especially shortages of agricultural raw materials because of drought and adverse foreign market conditions, have hurt exports. The export incentive effects of devaluation were less than the change in the exchange rate alone would suggest because of additional export duties and the elimination of export subsidies. There were later reductions in duties and a return to subsidies for some commodities but as yet there is no real momentum evident or in sight. A more dynamic Indian export sector would seem to require a variety of promotional measures on a more stable and uniform basis that in the past. The problem is being examined by the Government in consultation with Indian producers. An improvement in exports seems clearly vital to India's future, and it is also clear that the main burden of necessary export expansion will have to be carried by Indian manufacturers. If they are to succeed export manufacturing will have to become more profitable and efficient than now seems to be the case.

CHAPTER I

INTRODUCTION

1. This is the report of a mission which was in India during July 1967. The purpose of the mission was to report on the course of the Indian economy since the last Bank mission was there in the latter part of 1966, and thus in the light of recent economic developments, to reassess India's foreign aid requirements for this year and to consider in a preliminary way next year's aid requirements upon certain assumptions about the course of events over the next eighteen months. Finally, it was an objective of the mission to review recent progress in a few key economic programs and areas of economic policy in India.

2. The report does not pretend to be a comprehensive discussion of the Indian economy and its problems. It is rather an interim review which attempts to give an "up-to-date" account of some of the economic trends and some of the important aspects of India's economic performance which were identified and discussed in the report[1/] of the last Bank economic mission to India.

3. No attempt is made however to cover all of the important elements of economic performance which were discussed in the last report. Instead it was decided in this interim review to focus on only a few economic policies and programs which seem of importance to the achievement of satisfactory long-term economic growth. These included the program for increased agricultural production, population control, more liberal regulation of the economy and the promotion of exports. There are of course many other aspects of economic policy which are important, but for this interim report, considering the time available, it was felt preferable to focus on a few of the more important issues rather than to attempt a coverage of the whole economic policy field.

4. It should be noted that the Indian Government has taken positions, or is attempting to decide its positions on all of these policy issues. Many of them are, however, most complicated with ample room for difference of opinion about the best course for Indian economic development. Furthermore, opinions on the course of policy may vary depending on one's assessment of the administrative capacity for execution and resource capability for financing. There is always the question of the weight to be given to non-economic considerations in arriving at economic policy decisions. And in India, choices of economic policy and their execution are very much affected by the Constitutional removal of major aspects of economic policy from the exclusive purview of the Central Government, leaving them either to the

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1/ Indian Economic Policy and the Fourth Five Year Plan, AS 122b May 22, 1967.

divided jurisdiction of Central and State Governments or entirely within the authority of the States. No less a subject of economic policy than agriculture is entirely a State matter. Coordination of Central and State economic policies is facilitated by State financial dependence on the Center and until recently by the political dominance of the Congress Party of State as well as Central Governments. Now there are non-Congress governments in 9 of the 17 States. Despite this political change there has not been notable friction over economic matters (other than food allocations to some of the deficit States) and the Center still controls the funds necessary to cover about 50% of State capital and recurrent expenditure. Nevertheless there are definite limits to the extent to which economic policies, especially controversial policies, can be centrally devised and nationally executed, and these limits have probably been narrowed by the recent course of Indian politics.

5. In these circumstances and considering the difficulty and diversity of India's economic problems, the achievement of an economic policy consensus within the Indian Government, among Central and State Governments, and between public and private interests is hardly easy. There are not many clear answers in the form of "correct" economic policies and the "proper" means for their execution. The best course to ameliorate India's economic difficulties is often murky indeed. Now fortunately, this may be less true in agriculture than it was a few years ago. Population control also seems a more clear possibility, although it remains a long slow process, with still many uncertain aspects. And on the vexed questions of what to do about exports and domestic savings practical answers are not clear at all. This report only attempts to say how some of these problems appear to the mission at this point, and to indicate what seems to the mission to be merits and shortcomings of efforts to deal with the problems.

6. Two other introductory notes may be made. First, it should be said that July, coming just at the beginning of the monsoon, is not a good time to review the shorter term situation and prospects of the Indian economy. So much that is going to happen next year depends in large measure on this year's crop, and July is just too early to assess crop prospects. This uncertainty is aggravated by insufficient information on which to judge the economy's likely response to different harvest possibilities. July was, nevertheless, chosen for the mission in order to prepare a report in time for an autumn meeting of the Indian Consortium. Since the mission was in India the rains have continued to be generally favorable and present prospects are for a very good crop.

7. A second introductory word should be said about the present status of the Fourth Five Year Plan. September will be the mid-point of the second year of the Plan period. It seems clear now that if the Plan is to constitute a fairly specific investment program, it will need substantial revision because of the investment shortfalls from Plan trends last year, this year, and probably next year resulting from

recession, price increases, and below-plan availabilities of domestic and foreign resources. The sort of revision that will be undertaken is not yet clear in view of present economic uncertainties, the revised status of the Planning Commission (which has now been designated an advisory body with a Deputy Chairman who is no longer in the Cabinet), and changes in Planning Commission personnel. The new Deputy Chairman has just taken over at the beginning of September. Considering the consequences for the Plan of two years of poor crops and associated financial stringency as well as other adverse developments in the Indian economy, it no longer seems appropriate to assess the course of the Indian economy against Fourth Plan targets. For the time being, India's shorter run economic policies are likely to be geared to ad hoc objectives fixed according to what is possible in spite of recent unfavorable economic circumstances. Some references are made in this report to differences between planned objectives and actual and prospective economic trends. But in no sense should this report be considered a progress report on the Fourth Plan.

8. There are many references in the report to the shortcomings of information about what is happening in the Indian economy. This is obviously a handicap for anyone attempting to comment on the course of the Indian economy. But much more important is the handicap for officials responsible for economic policy and for all the others who have to make production, investment and financial decisions. The state of India's economic information is no worse than in most other developing countries and much better than in many. Nevertheless, India's need for good and timely economic information is greater than most because there is so little margin for miscalculation in the constantly strained economy, and because the Central and State Governments are so extensively involved in the direction and management of the economy.

9. In the circumstances of the moment, for example, judgements are needed about the effect which a good crop will have on the course of the economy - on the size of commercial food supplies, food prices, demand for food and other goods, food procurement requirements, the monetary situation, demand for imports, use of import licenses and foreign aid requirements. All sorts of policy decisions hinge on such judgements. Yet there is little basis in currently available data on which to make these judgements. And so decisions and plans will have to await actual developments with consequent delays in policy responses and with loss of possible opportunities to influence the course of the economy. This is but one example of the difficulties of improvising major economic policy in the absence of adequate information about the economy.

CHAPTER II

THE STATE OF THE ECONOMY

(a) Recent Overall Trends

10. The Indian economy is passing through a difficult period of depression. Two years of low rainfall in 1965/66 and 1966/67 have reduced output in the agricultural sector to levels lower than in 1960 and, despite record foodgrain imports averaging 9 million tons a year over the past two years, the per capita availability of foodgrains has dropped to levels last seen in the early 1950's. This foodgrain shortage has stimulated a rise in the relative price of food with the result that consumer goods industries, particularly textiles, in the past 18 months have been suffering from depressed demand conditions. There have also been some raw material shortages, but on the whole, demand has emerged as the crucial limitation on output growth, replacing foreign exchange as the number one constraint for the first time in a decade. Agriculture and related sectors account for 40% of domestic product, and their sharp decline of the last two years has offset not only the gains in agriculture achieved earlier in the present decade but also all the per capita gains of industry and other non-agricultural sectors since 1960. If one compares present slump conditions with the situation at the beginning of the sixties, per capita income is at about the same level.

11. Recent Government fiscal and monetary policies to combat the rapid rise in food prices have necessitated curbs on government investment plans, and this has been a major contributor to the downturn in economic activity. Throughout the 1960's there has been a steady rise in money supply, mainly because of increases in credit to the public sector, and prices rose considerably faster than output. This had the important economic consequence of a marked improvement in relative farm prices which gave more favorable incentives to agriculture. With the bad harvests of 1965/66, however, the food price increases accelerated, and the Government felt the need to curtail the growth in the overall public sector deficit in 1966/67. However, this did not curtail the rise in food prices. The axe fell mainly on development expenditure which in 1966/67 fell by an estimated 2.6% in real terms, with investment expenditure falling even more. The cutback in public investment - with the public sector in India accounting for two-thirds of capital formation - has had a serious direct adverse impact on the engineering industries other than those serving agriculture, and the secondary impact is still spreading through the economy. As a result, private investment probably declined in 1966/67 by some 10% from the previous year. Changes in cost-price relations as a result of the devaluation of June 1966 and of rising wage and raw material costs were undoubtedly also factors in the disturbed industrial situation but their significance has been largely submerged in the general depression of industry. Likewise, in general, any impact which devaluation may now be having on imports, exports and expenditure decisions is largely hidden by the other effects of the depression.

12. There was no relief from the depressed domestic market through increased sales abroad because exports declined in 1966/67 for reasons subsequently discussed in Chapter III. However, imports increased slightly[1] because of more liberal licensing and larger food import requirements. Debt service is also going up. Hence, the basic balance of payments deficit reached a record level of about $1.8 billion, compared with $1.0 billion in 1960/61. This reflects the fact that although the investment rate in the past three years has stagnated or fallen slightly, both private and public savings have fallen even more - the latter probably becoming negative at the Centre in 1966/67 for the first time. The balance of payments picture will not be very different this year.

13. In short, the Indian economy is at a low ebb. The causes of this recession, and the short-run outlook, are analyzed below in more detail. It appears that the economy is at the bottom of a trough and the distinct prospect of a good monsoon in 1967/68, aided by some of the results of the new agricultural program, should improve food supplies and reverse some of the adverse trends of the past several years. The pace of recovery is difficult to predict although progress will probably initially be slow.[2]

(b) Nature of the Recession

14. As indicated, the main and inter-related causes were: First, poor monsoon rains for two successive years cut agricultural production; second, because of shortage of food, aggravated by the absence of a food buffer stock or adequate food imports, the steady 8% per annum rise in the price level in the early 1960's jumped to 15% in 1965/66 and 17% in 1966/67. The Government, concerned over this rapid price rise, felt the need to curtail the rise indirectly by reducing deficit spending from 1966. Along with these two factors there were also major uncertainties in industry arising from devaluation and associated policy and price changes, wage increases and labor unrest, capital availabilities, raw material shortages and political developments in connection with the general elections of late 1966. The secondary and tertiary effects of these events are now working their way through the economy. Given the constraint of inadequate food supplies, the process cannot be reversed without further excessive price increases and consequent rise in wages and dearness allowances, unless a good foodgrain harvest occurs which would stimulate demand and permit a higher level of public sector expenditure without price increases.

1/ On a payment basis. Customs statistics show some decline in imports in 1966/67.

2/ It should be noted again that the information on the economy available either to Government policy-makers or to outside observers is inadequate, and an analysis of the economic situation thus has to rely much too heavily on informed conjecture.

15. The reduction in agricultural output in 1965/66 represented a sharp drop below the long-run trend - a variation from the trend rather larger than the upward variation during the boom year 1964/65. Output in 1966/67 was still well below the trend. The steady growth in the demand for foodgrains at a rate in excess of available supplies led to a 20% rise in food prices relative to other goods between 1960/61 and 1963/64. Foodgrain prices continued to rise both absolutely and relatively in 1964/65 despite the good harvest, and jumped relatively a further 20% by 1966/67. For this reason although the farmers' and middlemen's aggregate real income dropped significantly in 1965/66, it more than recovered in 1966/67 compared with the 1960/63 period. Incentives to agricultural producers were much improved. Imperfect distribution of food supplies and monsoon variations led of course to big regional differences. The non-farm consumer was hard hit by the rise in the relative and absolute price of food, and the consequent drop in the demand for cotton textiles was the basic initial cause of the recent troubles of the textile industry. Output of footwear, bicycles, radios, enamelware and finished clothing, etc., likewise all fell as real demand fell. Other sectors were directly affected by the cut in output of agricultural raw materials - the jute industry, for example, and food manufacturing such as sugar refining and vegetable oil preparation. By mid-1966, the cotton industry was also beginning to suffer from the shortage and high prices of raw cotton although demand and output have remained more or less in balance at the reduced level of output and exports.

16. As noted above, there has been an autonomous rise in relative foodgrain prices, and prices of many cash crops. There was also a steady increase in wholesale prices of about 7% a year up to the end of 1964/65, pushed by food prices and associated wage increases and permitted by about Rs. 280 crores a year of deficit financing by Centre and State Governments. In 1965/66, however, credit extension to Governments increased about 50% faster than previously, mainly because of a spurt in State Governments' expenditures. The rate of increase in wholesale prices, strongly affected also by the food shortages, doubled to 15% and then rose by a further 16.7% in 1966/67, still led by food prices which rose no less than 24.6% despite the decline in deficit financing.

17. Faced with this rise in prices, the Centre during 1966 began to curtail expenditure in an attempt to keep deficit financing within reasonable limits. Because of the growing recession, the buoyancy previously shown by current revenue faltered and declined slightly as a proportion of national income although not in absolute terms. Internal capital receipts also fell markedly in absolute terms. At the same time, non-development expenditure during 1966/67 was 25% higher in money terms (compared with 14-15% in previous years) and about 17% higher in real terms than in the previous year, mainly because of an increase in Centre assistance to the States for famine relief of Rs. 63 crores and in expenditures on food and other subsidies and dearness allowances of about Rs. 290 crores in an attempt to mitigate the effect of the rising cost of living. Government import and foreign debt servicing costs were also increased by devaluation. In the absence

of compensatory savings elsewhere, the excess of current revenue over non-development expenditure fell by 11% in money terms and almost 20% in real terms. Disbursement of aid to the public sector increased slightly.

18. The brunt of the cut in expenditures was thus taken by developmental outlays which fell by about 2.6% in real terms although budgeted to fall further. Since non-investment developmental outlays necessarily increase over time (maintenance expenditures, etc.), the fall was concentrated in public investment which probably fell by about 9% in real terms. A further comparable fall is budgeted for 1967/68. Actually, the change of pace in real public capital formation started in 1964/65 when such expenditures grew by only 5%, and by 1% in 1965/66, compared with an average of 17% in the previous three years. The effect of the 9% drop in 1966/67 was to cut the overall deficit financing by about 30%, but credit to the private sector was allowed to increase by a record 18% to facilitate the devaluation adjustment process, so money supply still increased by 9.6% compared with 11.1% the previous year. This did not moderate the price increases, which were, however, influenced at least as much by the worsening food shortages as by the monetary expansion.

19. This slowdown in public investment has been paralleled by private sector investment since 1965, with probably a decline of 10% in real private investment in 1966/67. In the first place, the initial recession in consumer goods industries reduced requirements for machinery in these industries, e.g., textile machinery. Curbs on public sector investment demand likewise reduced not only capital goods production for the Government but also the need of many firms to expand capacities.

(c) The Consequences of the Recession

20. The industrial sector has borne the brunt of the impact of the recession. The output of consumer goods industries has been affected both by demand and supply constraints as has been noted above. The slowdown in public and private investment from 1964/65, the decline of 15% in Centre investment in machinery and equipment in 1966/67, and the prospects of a further fall in 1967/68, have exerted their depressing effect mainly on the production of heavy engineering equipment. The sharpest initial impact was exerted by the abrupt reduction in orders for railway wagons in early 1966 which led to a drop in output by a third from 33,500 units in 1965/66 to 22,000 units in 1966/67, and also left the wagon industry without the customary assurances about longer-run order prospects. The industry responded by cutting back sharply on its orders to suppliers, particularly the foundries. The same cutback in orders, order books, and output is being experienced by producers of heavy construction equipment, machine tools, commercial vehicles, textile machinery, industrial boilers, and the like, and this in turn has reduced the demand for coal and minerals, iron and steel castings, structural steel and other basic materials. The effect is still spreading through the economy, and cement

output is the latest to fall. There are, however, some bright spots reflecting continued progress in the agriculture sector, and rising demand for agricultural materials and equipment. The official index of Industrial Production would imply that aggregate output during the first half of 1967 was stationary at the 1966 level but, since the index excludes some important industries with sagging output, it is probable that aggregate output has in fact fallen so far in 1967. The official data are give below:

	Industrial Output: % Change Over Previous Year			
	1963	1964	1965	1966
Consumer Goods	3.4	8.3	2.5	-0.7
Intermediate Goods	11.9	7.0	6.5	4.6
Capital Goods	11.0	6.3	6.6	3.5
All Manufacturing Industry	7.7	7.0	5.0	2.1

21. Sales have probably fallen faster than output since stocks of manufactured goods have been rising. This has stimulated competition and more aggressive marketing. Hence, industrial products are not experiencing the rising price trends seen in the rest of the economy. Delivery dates are also shortening markedly, as in the automobile industry. List prices are generally stable, but substantial discounts are becoming more and more common and where premia existed, they have declined. Thus, the effect of the recession has been to force the industrial sector to absorb most of the cost increases that have resulted from the impact of devaluation on imported inputs. At least for the present, it also seems that cost-of-living allowances, which in many industries are almost automatically linked to consumer goods' price indices, have likewise been absorbed without offsetting product price increases. Lay-offs of workers are, however, increasing, especially in West Bengal.

22. For these reasons, profits are being squeezed in many industries, and the problem is made worse in many cases by excess capacities which add to overhead costs. The problem of excess capacity had already been noted in 1964/65, before the recession set in, but the cumulative effect of investment decisions made early in the Third Plan has been to add to capacities in 1966 and 1967 at a time when demand is falling. This is particularly true, in, for example, industrial boilers where the ratio of output to capacity fell from 69% to 38% between 1965/66 and 1966/67, in machine tools from 80% to 66%, in mining machinery from 17% to 14% and metallurgical and heavy mechanical equipment from 37% to 18%.[1] Thus, on the whole, the recession has aggravated a situation where there was already some overinvestment in heavy industry. Because of this and reduced

1/ These statistics of capacity utilization give a misleading impression of precision but they do indicate that excess capacity of substantial magnitude has developed.

forecasts of demand, for example in steel, some cutback in planned levels of public investment in industry and transport was probably justified in any case in the light of changing priorities. In this sense, interruption of some of the investment plans was probably not damaging since a different balance of investment than the one planned was in any case desirable. The slowdown in investment could become serious if investment recovery on the basis of revised priorities were to be long delayed because of inadequate preparatory arrangements or insufficient domestic and foreign resources.

23. The excess capacity, particularly in the capital goods sector, has aroused some interest in exports, and this interest, if it were to continue and to spread, could be counted as a benefit of the recession. Some additional overseas sales of certain kinds of industrial goods has been achieved, although in total the amounts are small and as yet there are few signs of substantial industrial interest in overseas markets. In total, export of engineering and chemical manufactures fell last year. The recession and the decontrol of imports which accompanied devaluation has also increased internal competition, with resulting cost-consciousness and greater concern for quality and service as important sales factors. If these are lasting developments, they should help to improve Indian industrial efficiency and this would be of the greatest importance for export prospects.

24. In essence, the key element that has transmitted the recession through the economy has been the food shortage and the consequent jump in food prices, which are clearly very sensitive to small supply changes. The imperfect internal distribution of food aggravated the price increases especially in deficit areas such as West Bengal where much industry is concentrated. This clearly emphasizes the need in India for a food supply policy as a key element of long-term development strategy. A satisfactory growth process is difficult to achieve when the vagaries of weather can upset investment plans and, indeed, the whole balance of the economy at frequent intervals. For the longer run it can be expected that irrigation and water control programs will reduce the variations in crops due to weather. Meanwhile, fluctuations in food supplies and their consequences for finance and economic activity could be reduced if there were emergency food resources available in the form of buffer stocks or imports or both. Past reliance has been on imports, and the experience of the past two years has demonstrated that this source alone is not dependable enough in the absence of large foreign surpluses and of clear commitments from abroad about the sale and timing of food aid. Nor are there the prospects of sufficient exchange reserves to import food commercially on a sufficient scale in times of emergency. It seems necessary, therefore, to accumulate a buffer stock of food supplies within India which can be used to reduce food supply fluctuations and if possible in combination with food imports, enable price trends to be less erratic. Fiscal and monetary policy could then be more independent of the weather and food aid availabilities, and the development process smoother as a result.

(d) Centre Budgetary Policy for 1967/68

25. The concern of the Government about the rapid increase in the rate of growth of prices during the past three years has determined the broad pattern of budgetary policy for 1967/68. This policy is aimed at reducing budgetary expenditure by almost 3% in monetary terms. This is to be achieved by a budgeted rise of 3.6% in Government consumption and transfer expenditure over the 1966/67 level and a fall of over 6% in the monetary level of Centre gross capital formation and of financial assistance to the states and to public and private industry. At the same time, current revenue is estimated to increase by over 11% in 1967/68 over its 1966/67 level. Thus, the Government is hoping to balance the Centre's budget as defined in India (i.e., including as revenue PL 480 transfers and all borrowing other than on Treasury bills and advances from the Reserve Bank). This would compare with a deficit of about Rs. 300 crores in 1966/67 which represented about 14% of Centre tax revenue. In terms of the overall deficit of Centre and State Governments to be financed by the banking system (including sales of securities to the commercial banks), the budget presentation implies a drop in such financing from Rs. 313 crores to around Rs. 170 crores.

26. In fact, there is reason to doubt whether the deficit can be kept as low as Rs. 170 crores. In the first place, Centre revenue is budgeted to rise by 11% and overall revenue by 14% - a rise that assumes increases in imports and import duty, andin domestic production, that seems unlikely to take place. Such an increase in revenue would be consistent only with a much more rapid increase in expenditures than is likely to occur. There have been certain desirable changes in taxation - for example, an increase in excise duties on exportable products and in certain luxury forms of production - but there have also been reductions in export duties so overall the new taxes in practice are unlikely to enable the budgeted revenue increase to be achieved. Secondly, on the expenditure side it is doubtful that the budget estimates have made necessary allowances for this year's price increases. Also, increases in dearness allowances payable from September onwards, inducements to exporters, and expenditures on food purchases and famine relief all may be higher than budgeted. All told, although it is too early to assess the exact outcome of the 1967/68 financial year, it will clearly be difficult (as preliminary data for the first four months show) to keep deficit financing significantly below the 1966/67 level.

27. The public finance situation in India is thus far from satisfactory at present, although hopefully the recovery will reverse some present trends. Public savings dropped sharply in 1966/67 and capital expenditure continues to fall relative to non-development spending. Given limited real and financial resources, the imperatives of defence, and of social policy during a period of agricultural privation, have curtailed the rupee resources available for development and capital formation. To raise public saving for further capital investment at the cost of an inadequate maintenance and utilization of the existing capital stock would obviously provide no long-run solution. The Indian Plan documents fully appreciate the need for restraint in public non-development spending, but the elemental fact is that an adequate rate of savings can be achieved only if the real growth rate is very much better than it has so far been during the 1960's.

CHAPTER III

PROGRAMS AND POLICIES

28. As mentioned in the introduction, it was an important aim of the July mission to report on the progress of a few key economic policies and programs which are vital to the improvement of India's economic situation. Those discussed here are food and agriculture, administrative controls, family planning and exports.

A. FOOD AND AGRICULTURE

29. Considering the seemingly intractable obstacles which were believed to stand in the way of agricultural improvement in the past, the recent advances toward higher agricultural production are perhaps the brightest aspect of the present Indian economic scene. The technology of this improvement was described in the Bank's last economic report on India[1/] - essentially the use of new and much more productive types of foodgrain varieties in combination with the complementary requirements of fertilizer, pesticides, water and other inputs necessary to make the most of the new seed potential. The technological advance has been based essentially on the import and adaptation of new varieties of wheat and rice and on techniques for breeding highly productive hybrids of maize, jowar (sorghum), and bajra (millet) from improved seed stocks. In concept, the program is fairly simple - supplying the high yielding seeds and other necessary inputs to areas where soils, water and other conditions are suitable for the best possible yields. In practice, the program is complex, imposing a most taxing organizational and administrative burden to produce and otherwise assemble the necessary inputs in required amounts, to distribute them into the right hands at the right time, to insure that the farmers have the means and the incentives to adopt the new technology, and to follow in detail the progress of the program in order to correct shortcomings and make timely adjustments as necessary.

30. Perhaps most impressive of all is the acceptance of, and desire for, the new technology by the farmers themselves. In the past, farmer lethargy and tradition-bound conservatism have been blamed for disappointments in improving the technology of Indian agriculture. More recently, with the improved terms of trade of the farming sector, there has been an increasing awareness that the farmer is a pretty astute judge of techniques which, from his standpoint, are practical and make economic sense. It is most encouraging, therefore, that there is widespread farmer endorsement of the new technology,

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1/ Indian Economic Policy and the Fourth Five-Year Plan, Volume II, Agricultural Policy in India, AS-122b, May 22, 1967.

expressed by a clamoring for the new seed and other required inputs and a willingness to pay much more for them than for the old seed and the old methods. The meeting of this demand has become a political consideration to be reckoned with.

31. In many respects, the provision of sufficient inputs at the right time has gone fairly well - in other respects not so well. For the two most important crops, rice and wheat, which are open pollinated plants, progress in provision of high-yielding seed varieties has been substantial (Table IV). The statistical reporting on progress is still rather poor, but it does indicate the dissemination of high yielding rice and wheat seed in 1966/67 over 3.5 million acres or 80 percent or more of the target for the first year of the program. In terms of the five year acreage targets the first year acreage for rice and wheat was about 17 percent. Yield results in total last year are not significant because of the drought; but in selected areas where water and drainage were satisfactory, yields of high yielding rice and wheat varieties were double or more the yields of previous varieties in widespread actual farm use.

32. A further large expansion of the acreage in high yielding wheat and rice is expected again this year. However, data are not yet available on how close the planting with high yielding seed this year has approached the target. This is only one instance where the establishment of an adequate mechanism to obtain and evaluate current agricultural data is of major importance to the implementation of the new agricultural strategy.

33. Work is going forward in India in further improvement of varieties through research and experimentation. A short duration paddy variety, developed in Madras is reported to produce in test plantings on farmers plots an average of 4.5 tons per hectare compared with 1.6 tons for traditional varieties. A recent new wheat variety combines the yield characteristics of Mexican dwarf wheat with the color and taste of local wheat varieties which are preferred by consumers. As a result of testing and breeding programs now underway a steady stream of new varieties should in fact reach the market over the next few years.

34. While the rice and wheat programs are progressing reasonably well, other parts of the program are finding harder going. The provision of hybrid jowar, bajra and maize seed in requisite amounts and qualities requires a much higher level of skill and organization than in rice and wheat. Whereas harvests from the new varieties of rice and wheat can supply the seed for the next crop for 3-4 years, hybrid seed of jowar, bajra and maize has to be renewed each year, and the supply of new seed has to be hybridized each year using carefully maintained pure line foundation stock which itself must be reproduced and multiplied each year under exacting conditions and careful supervision.

Production of foundation stock for hybrids is mainly the responsibility of the National Seed Corporation, a central government agency, while the production of hybrid seed from this stock is done by state seed farms, cooperatives, and private seed farms. The hybrid seed output is subject to certification by the National Seed Corporation before distribution to farmers.

35. The main difficulties so far have been that the National Seed Corporation has not been able to meet the program requirements for foundation stock, and seed farms have not developed the capability to use the available stock to the best advantage, both in yields and in quality, in the production of hybrid seed. And in the circumstances of short stock supplies, distribution has been guided by an effort to ensure something for all the seed farms rather than by maximum provisions of stock to the most efficient hybrid seed producers. Maize hybrids have not done too badly, but jowar and bajra hybrid seed supplies have fallen way behind the program targets - to say nothing of actual demand. They were 50 percent or less of targets in the 1966/67 season and they will probably be even further behind the rapidly rising targets and demand this year. Quality of hybrid supplies has also not always been up to acceptable standards.

36. The National Seed Corporation needs massive support if it is to be equal to its tasks as main supplier of foundation stocks and exclusive certifying authority for hybrid seed supplies. The seed producers will also need more time than was foreseen to improve their physical facilities for seed processing and to meet the necessary levels of technical capability. And improvement is also needed in the machinery for seed distribution. There has been considerable progress in these respects over the past year and more can be expected. It is not likely, however, that with present administrative arrangements the progress will be as rapid as it could be. There are clearly possibilities for supplementing the present arrangements through private participation in plant breeding, the production of foundation stocks, seed multiplication and the distribution of seed. An effective demand for seed is such that these functions could be performed quite profitably if seed prices were allowed to reflect the strong farmer demand. Such a wider sharing of the tasks of improved seed supply, accompanied of course with enforcement of legislation necessary for an effective seed certification system, could undoubtedly improve the prospects of the program and remove some of the present uncertainty about the speed at which the targets for high yielding seed can be reached.

37. Demand for fertilizer has risen sharply. The distribution in 1966/67 was 50 percent more than in 1965/66, compared with an annual growth rate in fertilizer use over the 1955-1965 decade of only 20 percent. Imports of fertilizer nearly doubled (Table V). There were some regional inadequacies and late arrivals, but by and large what was available was provided where needed and on time. Prospects for continued rapid growth in effective demand for fertilizer are excellent given the still extraordinarily low usage, even in irrigated areas and

considering the satisfactory price situation.[1] The expansion of plant protection from disease and pests was also substantial with an increase in the acreage so protected by about 50 percent in 1966/67, and with an expected increase this year by about 100 percent. Exchange allocations for plant protection materials tripled last year and will be considerably increased again this year. Intensive agricultural development requires a power input which is much larger than presently available from the bullock. Recent trends suggest that the demand for wheel tractors and small power fillers is rising. And with the need for more exacting land preparation, more crawler tractors are required (Table VI). In this connection, the provision of specialized custom services by private contractors for heavy ploughing, subsoiling, land shaping and harvesting deserves promotion and support.

38. At the moment, ensuring an adequate supply of seeds of high yielding varieties seems to be a major problem area in the agricultural program. But the major concern for the longer run prospects of the program is the slow progress in building up domestic fertilizer production. Compared with estimated nitrogen requirements of about 2.5 million tons by 1970/71, the domestic output is not likely to be more than half and may well be less than half. Furthermore, beyond 1970/71 the gap between requirements and domestic production will widen very rapidly unless there is a marked acceleration in the construction of a new fertilizer capacity. The prospects for increasing domestic deficiencies of phosphatic fertilizer are similar. When it is recognized that the landed cost of nitrogen fertilizer in India is $180-190 per ton of nitrogen, the seriousness of mounting fertilizer import requirements for the agricultural program are evident. There are a host of problems involved in expanding the Indian fertilizer industry including not only the large requirements of foreign and domestic capital but development of a management capability equal to the magnitude of fertilizer expansion requirements. The financing and management problems involve interests of both the Government and the private sector and the enlistment of external official and private participation. It is unfortunate that despite the urgency of the need the reconciliation of these interests should prove a formidable task leaving little ground for optimism that fertilizer expansion will be on an adequate scale.

39. It is possible to foresee other potential trouble spots which might impose a slower than necessary pace on agricultural expansion. Some of these are to be found in the areas of irrigation, farm credit, and incentives. The irrigation problem is essentially one of ensuring a steady expansion of the area in which water supplies and water control are adequate to realize the potential benefits of other agricultural inputs. At present the government is emphasizing programs of minor

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1/ Despite the removal of fertilizer subsidies it now takes about 3 kg of cereals to purchase a kg of nitrogen (nutrient) as compared to more than 4 kg in the early sixties.

irrigation works and there are large recent gains in these programs. The most impressive achievements are being recorded in small private irrigation schemes, partly with government financial support. Last year the number of private tubewells increased by nearly a third and a similar increase is expected this year. The proportionate increase in the number of open wells was even larger, and the number of water pumps in operation has been rising at an annual rate of about 20 percent (Table VII).

40. There is, nevertheless, reason for concern that the progress of irrigation programs may fall short of what is feasible and that water availabilities could become a bottleneck to agricultural improvement at an earlier point than necessary. The main need in this respect, along with continued acceleration of the minor private and public irrigation installation, is a re-examination of existing major irrigation works in order to determine what additional investments in financial and manpower resources are required to orient their management and operation away from low production from excessive command areas to high production from intensive irrigation. To some extent, reduction of command area can be minimized by reducing delivery losses in the main system as well as in the excessively meandering field channels. There is also scope for making more efficient use of water in the fields themselves. In many old irrigation tracts, the interpolation of tubewells in the command area could provide the increased water required by high production techniques. However, maximum groundwater development can only be safely approached if in its early development a precise evaluation of the underground water resource is carried out. Indeed, a thorough study of India's aquifer resources is long overdue. High production techniques must also be based on accelerated research in the fields of water management, water requirements of the new varieties of major crops and the drainage requirements within irrigation commands to make possible efficient double cropping. Pilot work to intensify water utilization in command areas of some irrigation schemes is being started under the guidance of the new "water cell" of the Ministry of Food and Agriculture. However, the resources channelled to this end have been small in relation to what would be required to make full use of the huge investments already made by the Center and the States in basic irrigation infrastructure utilization. Indeed, it appears that a major coordinated effort to intensify water utilization has yet to be mounted by the Ministry of Food and Agriculture, in cooperation with the Ministry of Irrigation.

41. Farm credit remains a serious problem but has not been an immediate constraint in the distribution of inputs. At the present stage of the agricultural program the distribution of the available supply of essential farm inputs have been financed through existing channels of institutional credit, farmers incomes and private sources of credit. This has been helped by recent increases in Reserve Bank credit to farm cooperatives, the State Mortgage Banks and other institutional channels of farm credit as well as currently favorable prices of farm products. There are, however, marked regional differ-

ences in the capability of rural financial institutions, with particular weaknesses where the cooperatives are weak or non-existent. Furthermore, so far the proportion of better-off farmers engaged in the program and in the addition of tubewells and other farm improvements is higher than it will be later as the program expands. And as the proportion of poorer farmers increases, credit requirements will also increase. Despite extensive consideration of what might be done to improve this situation there has so far been little action. As supplies of inputs are increased this could become a serious drag on rural progress by limiting both the use of current productive inputs and the financing of land improvements and additions of wells and machinery. As the agricultural production program expands current favorable relative agricultural prices may decline and problems of credit can become a major obstacle to further increased production. Every effort should be made to strengthen farm credit institutions and to increase the supply of farm credit through all channels, private as well as cooperative, and government.

42. With the surge of food prices in recent years, there can hardly be a question at present of the adequacy of food production incentives. The uncertainty about incentives arises from the question of the effect which a favorable harvest (or two favorable harvests) may have on relative farm prices. It seems hardly likely that an early incentive problem will emerge on a widespread scale, even if the hopes for a bumper 1967/1968 crop materialize. The reasons for this view are discussed in Chapter IV. Probably a second good crop will be needed before there need be general concern about a nationwide relative decline in food prices to the point where incentives to increased agricultural production would be impaired. Nevertheless, the question of the maintenance of adequate incentive prices in the food surplus areas already arises and may become serious - especially under the present state zone system of distribution which restricts the outflow of food from surplus areas except on an administratively controlled basis. The Government believes that this problem can be dealt with through increased official procurement in the surplus areas. This would be consistent with the aim of building up an official buffer stock as justified by supplies. But rapid and large additions to stocks from domestic supplies could be a taxing burden on finances and on regional capabilities and facilities for procurement, handling and storage. Hence, early programs are likely to be needed to expand these capabilities and facilities over the next two or three years if an adequate buffer stock is to be built up.

43. While buffer stock accumulation may involve some difficult problems, other difficulties in the management of food distribution might be eased in the event of an improved food supply situation by relaxation of inter-state trade restrictions on food after this year's kharif harvest. This could have political and economic advantages; it would remove a source of political friction between surplus and deficit states, it should reduce the wide price disparities between the surplus

and deficit states[1] and thereby ensure continued adequate incentives in the former, and it should also reduce the economic cost of the single-state food system. This cost is likely to increase with a continuation of the system because of shifts of resources from agricultural raw materials production toward food production in the food deficit states and a consequent sacrifice of advantages of regional specialization.

B. ADMINISTRATIVE CONTROLS

I. Moves Towards Decontrol, and Increased Domestic Competition

44. In June 1966 the Government substantially liberalized imports of production materials by allowing the firms of fifty-nine priority industries accounting for about 85 percent of industrial production to satisfy fully their requirements, provided no item inscribed on a special "banned list" was imported.[2] Past undertakings to progressively increase the indigenous content of production remain binding, and the type of funds to be used continues to be determined by the Government. Nevertheless, these measures constitute a very substantial step towards lifting controls on production imports.

45. Other measures of decontrol were also taken in the past year. Notably, while investment and production in large-scale industry remain subject to licensing, this requirement has been relaxed in three crucial ways. A number of industries have been altogether exempted from its requirements. Furthermore, all firms are now authorized to diversify their production, provided that no additional capital is needed and that the new products account for not more than 25 percent of the production. Finally, all restrictions on the volume of production of the priority industries have been in practice abandoned; for these industries industrial licensing has ceased to restrict the utilization of existing capacity.

46. The new policy permits industrial firms to compete with each other on the domestic market. This is not immediately beneficial to all firms; as some firms increase the utilization of their existing capacity many others are, for the first time in their existence, hurt by competition. As explained in previous Bank reports, the former control system ensured that each industrial firm should have a reserved share of the domestic market, and prices which were remunerative even for the least efficient firm. As expected, the cost increase consecu-

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1/ The wholesale price of wheat in Punjab stood at Rs 75 per quintal in mid-1967 as compared to Rs 130 per quintal in the neighboring state of Uttar Pradesh. Similarly, the wholesale price of coarse rice in Orissa was Rs 85 per quintal as compared to Rs 145 in neighboring West Bengal.

2/ It must be noted, however, that although the cotton textile industries are included in the priority list, raw cotton imports are decided only by the Government.

tive to the rise in the price of imports could not be fully translated into higher prices because of the heightened competition allowed by decontrol[1/], along with the recession. The present difficulties of vast sections of industry were neither unforeseen nor altogether unwelcome, for heightened competitive pressures were always considered to be an unavoidable precondition to improving the efficiency of Indian industry.

47. The dismantling of purely domestic controls continues. Since the last economic report, the partial decontrol of steel introduced in 1963 has been extended to all steel items. Mill prices and rolling programs continue to be set by the Joint Plant Committee, a committee formed of representatives of all producers and the Government. All transactions subsequent to purchase from the mills are now completely free.

48. The price of coal was also decontrolled in July 1967. It has also been announced that, starting at the next crop season, the ceiling price of raw cotton will be abolished. A partial decontrol of sugar prices was announced in August.

II. Absolute Protection from Foreign Competition

49. In the field of import controls, the system established last June has since undergone only one major formal change. This unfortunately constituted a backward step. Following the policy announcement of June 1966, items which were thought to be available indigenously were inscribed on a list and those not explicitly banned in this manner were allowed for import. Following the announcement of a new policy in April 1967, import requests are again scrutinized item by item to make sure that indigenously available items are not imported. It seems that procedures have been improved and this examination does not considerably lengthen the time required for issuing licenses; however, the complete protection from imports given to Indian industry has been further strengthened.

50. Indigenous clearance procedures were never suspended for imports of capital goods; they not only protect even the most inefficient local producers of capital goods from all foreign competition, but they may also add to the difficulty and cost of investment projects.

51. Capital goods producing industries are suffering from a recession now, and this may not be a very auspicious time for introducing even token amounts of foreign competition. On the other hand, the cost of the absolute protection provided to Indian industry, in

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1/ Of course, in addition to the devaluation there were unforeseen pressures on costs due to the rise in agricultural prices and consecutive increase in dearness allowances.

terms of the distortion of the pattern of development and the fostering of inefficient firms and sectors, can be very high indeed. As indicated, the devaluation has reduced the cost advantages to producers of using foreign as opposed to Indian equipment and materials. In the light of this there appears to be fairly extensive reconsideration of investment plans in the direction of increasing the Indian components of plans and of seeking out new domestic sources of components. Of course in present circumstances of depressed investment most of these reconsiderations have not yet been of a size to be evident in definite orders and, hence, there is as yet no quantitative basis for an evaluation of the importance of import substitution in the capital goods field resulting from devaluation. And while it will undoubtedly be important, this is certainly not to suggest that at the new exchange rate domestic capital goods are competitive with imports over any broad areas of Indian industry, even when protected by the present tariff with its minimum rate of 27.5%. Liberal import licensing, relaxation of industrial controls and other measures to allow increasing domestic competition should improve the efficiency of Indian industry. But the process of improvement may be slower than necessary and never reach internationally competitive standards so long as Indian capital goods continue to be completely protected from foreign competition in the domestic market under the present system which excludes all goods procurable in India.

III. Continued Administrative Determination of Types of Funds

52. The import licenses issued to each importer continue to determine the type of funds to be used by them, such as free foreign exchange, exchange earned in trade with Eastern Europe, and each of the various types of aid funds. Under present conditions there is no alternative to using such procedures. Bilateral aid and trade funds are not convertible; even in their country of origin they are in large part subject to restrictions. Such restricted funds make up the overwhelming proportion of the monies usable for imports of production materials from industrialized countries, for little remains of convertible export earnings after payment for debt service, freight charges, commercial imports of food and imports of raw materials from countries which do not give aid. This problem is becoming increasingly acute; so much so that even the utilization of available bilateral aid is hampered by the shortage of free foreign exchange required for complementary imports. Only a large increase of the free foreign exchange earned by or lent or given to India would provide a satisfactory solution.

53. Unavoidably, in present circumstances the allocation of specific funds for given imports does not involve merely a technical judgment on the suitability of certain funds to certain purposes, but also a judgment on the relative priority of the import and of the importer, which will partly determine whether the particular importer deserves access to funds of high or low desirability. As time passes and reference to the past area-wide distribution of imports becomes increasingly meaningless, the share of arbitrary judgments is bound to increase. If the administrative allocation of types of funds is maintained under its present strict form, the concept of decontrol will

become increasingly meaningless. If the required import has to be obtained from, say, Switzerland, there is in practice not much difference between denying the request or allocating Bulgarian levas for it.

54. Until such time as free foreign exchange availabilities increase greatly, it is not possible to take further meaningful steps towards decontrol other than the lifting of the general ban on goods competing with Indian production. Even the limited but significant degree of decontrol introduced last year is in danger. Despite the current slackness of the economy and the parsimony of licensing in the fifteen months preceding June 1966, which presumably tended to reduce imports, there is even now an acute and increasing shortage of free foreign exchange. And with India's low reserves there is often difficulty even in using available bilateral aid because of lack of foreign exchange required for complementary imports. If continuing availability of substantial foreign aid and, in particular increased amounts of free foreign exchange, were not insured, tighter import controls could quickly become necessary again with any marked revival of the economy and associated import demands for production materials and equipment. This tightening would have to be all the more drastic since a considerable "float" of licenses issued in the past could come up for payment. Hence, a given reduction in new licensing would provide a proportionately much smaller relief to the immediate payments problem, which springs mainly from past licensing. Therefore, once a marked economic recovery gives rise to an upswing in import demand, there could be a very severe cutback in the issue of new licenses in the absence of increased foreign aid including freely usable aid.

IV. Preparing New Tools of Economic Policy

55. New tools of economic policy are required as the reliance on administrative controls to orient the economy is reduced; in fact, many controls cannot be abandoned or relaxed unless new tools are developed. Thus the devaluation was an essential precondition of the partial decontrol of imports that followed. Another necessary tool is a protective tariff system which would function effectively in providing necessary and justified protection of Indian production from foreign competition and thereby remove this as one of the tasks of administrative import control. At present this task of protection is exercised by the import control administration in addition to its other purposes of limiting imports to total foreign exchange availabilities, ensuring that exchange goes for imports of high priority, and matching import requirements to different kinds of exchange availabilities including Eastern European exchange and tied aid. As indicated, this matching requirement precludes the possibility of replacing import controls with import management by means of financial policy and a protective tariff system. Nevertheless a tariff system could perform the protection function independently of the control administration, with a reduction of the administrative burden and with advantage to the development of Indian industry.

56. At present, protection policy bans all foreign imports which could be supplied in India. This has the effect of an indefinite perpetuation of inefficiency or excessive profit and a reduction of the relative incentives for greater concentration of industrial investment where it can be used most advantageously and efficiently. A tariff system could be devised which would provide for the legitimate protection requirements of Indian industry at a finite level but still allow for the possibility of foreign competition where necessary to avoid extreme or prolonged inefficiency. While relieving the control administration of the protection function, such tariffs, if at an appropriate level, could also reduce the task of matching import demand with total exchange availabilities.

57. Selective credit control is another tool which has been very little used, but the Reserve Bank of India has recently announced its intention to rely on it increasingly. Cheaper and more liberal Bank credits will be provided to exporters and to a few selected industries such as the producers of engineering goods, agricultural machinery and commercial vehicles. The Reserve Bank will provide preferential refinancing to commercial bank credits to these industries. These measures constitute a potentially large step towards replacing exclusive reliance on administrative controls by more subtle and more efficient tools.

C. THE INDIAN EXPORT PROBLEM

58. There is little need to elaborate the seriousness of India's export problem when, even in a period of depressed import demand, the level of exports is not much more than half that of imports and balance of payments deficits are running well over $1,500 million. While imports have grown substantially in the post-war period, exports were stagnant during the 1950's and have leveled off again in the last three years after a spurt in the early 1960's. This reflects, in part at least, an official attitude of the 1950's which was resigned to the view that "increasing competition abroad" with India's staple exports "limits the scope for any substantial increase in exports in the short run".1/ Import substitution was thought to be the answer to this situation, and no special effort was made in the 1950's to challenge foreign competition either in the old staples or in new lines, nor was there any real attempt to help exports by measures to improve the relative attractiveness of sales abroad in comparison with sales in the very attractive, highly protected, fast growing home market.

1/ Second Five Year Plan, Ch. IV, para. 47.

59. Changing policies in the early sixties reflected some disillusion with this import substitution strategy and recognition of the need to foster exports in spite of the high costs and attractive profits of the home market. Specific export incentives were therefore tailored to what were believed the individual needs of each potential export item. Thus exports of vegetable oils and sugar, the domestic prices of which were well above world prices, were promoted by cash subsidies; later, as domestic prices rose, quasi-cash "tax credit" certificates were granted to a widening range of exports; exporters of manufactures (other than jute manufactures) got import entitlements to scarce commodities, which were easily, though not always legally, transferable at high prices. By June 1966, on the eve of devaluation, all but a fraction of exports were covered by one or several of these measures; the range of effective subsidy went from about 4 percent to more than 200 percent. In addition, certain general, relatively minor, tax advantages were granted to practically all exporters. The general aim of the system was to overcome the specific handicaps facing each exporter, so that "each and every industry should become self-financing and self-supporting in respect of its import requirements gradually"..1/

60. The obvious drawbacks of such a policy for the long-term growth of exports were enhanced by the specific defects of the import entitlement schemes. The actual value of the subsidy provided to each category of exporters was uncertain and the rate of subsidy varied sharply, not only from one export to the other, but also over time. From time to time, the Government itself modified the ratio of the import entitlement over the f.o.b. value of the export; but the value of the entitlement to the exporter also depended on the actual import content of his exports and on the fluctuations of the premium on import entitlements, themselves determined by the profitability of the home market and the relative parsimony of official import allocations. Furthermore, even the permanence of the system as such was not ensured. Exporters never knew what their actual earnings would be, and were understandably reluctant to invest in the building of new markets.

61. Despite the uncertainties, the incentive policies undoubtedly contributed to the export expansion of the early 1960's although there were other favorable factors, especially in the world market for jute products. After 1964 however exports leveled off and then fell sharply in 1966. This year they will probably be higher than last year, but are unlikely to exceed or even reach the 1964 level. The unfavorable export situation of this and the two preceding years can be attributed to several factors, including problems of uncertainty stemming from the devaluation of mid-1966 and associated and subsequent policy changes, raw material shortages due to the bad harvests, and sagging world market conditions first for jute goods and later for tea.

1/ Ministry of Commerce, Annual Report, 1965/66.

62. These elements of recent export stagnation, and India's export problems and prospects are discussed below. Briefly, a considerable increase in export earnings from tea, jute, iron ore and other traditional exports appears to be feasible. Clearly, however, these exports will not contribute enough of an increase to provide the basis for a more manageable balance of payments in the foreseeable future. For this, the necessary expansion of exports will have to be on a much more diversified basis than in the past.

I. Present Policy

63. On June 6, 1966, the rupee was devalued, raising the rupee value of foreign exchange by 57.5 percent. Despite this, exports fell in 1966/67 by about 8 percent and by about the same rate in the twelve months after devaluation as compared with the twelve months preceding. There were substantial increases in some exports in the twelve months after devaluation including fish and fish products, leather and leather goods, iron and steel, hides and skins and iron ore. Most other exports fell, with export mainstays like jute goods, tea and cotton textiles down by about 12 percent, 18 percent and 28 percent respectively (compared with June 1965/May 1966).

64. The fall in exports of manufactures is all the more surprising considering the large excess capacities associated with the recession in the textile and engineering industries. However, the adverse effects of the recession have not been spread evenly among the firms in particular industries. In many cases, the more efficient firms have managed to keep their markets and to continue operations at a fairly high rate of capacity use. It is the less efficient firms that have felt the main brunt of the recession in the form of reduced demand and idle capacity. Yet these are the ones least able to divert idle capacity to the highly competitive export market; it may well be that even the variable costs of such firms are too high for the export trade. Furthermore, production can not easily or quickly be switched from domestic to export markets unless export marketing channels are well established. It is one thing for a firm already in the export business to expand its exports by lowering its prices below its average total costs when times are difficult at home. It is quite another thing to invest all the effort and expenditure necessary to build up an export business, especially if there are hopes that the recession will be short.

65. As indicated there were a number of factors involved in the export drop, including the bad agricultural situation and consequent shortages of domestic agricultural raw materials, external market conditions, and uncertainties subsequent to the devaluation. Trade with Eastern Europe was in fact virtually suspended until the satisfactory renegotiation of contracts in the course of the summer. Such renegotiation was necessary because, under the bilateral trade agreements, gold value clauses in existing contracts applied only to exports from Eastern Europe, not to those from India. Along with this combination

of adverse natural and market developments and inevitable post-devaluation readjustments, there were complications associated with measures designed to neutralize part of the export benefits stemming from devaluation for traditional exports where such benefits were judged by the Government to be likely to result in a foreign price decline without a compensatory increase in foreign demand. Export taxes were imposed on commodities accounting for more than 60 percent of 1965 exports. The taxes on tea and jute goods, the most important of these commodities, were equivalent to about 25 percent relative to the overall value of these exports; but, being in fact specific taxes, of a single rate for tea and two rates for jute goods, they fell most heavily on the cheaper varieties, precisely those which face the greatest competition. The returns to other primary commodities were generally improved, albeit sometimes only slightly. These export taxes on tea and jute goods were subsequently reduced (see Para 67 below). Other measures were taken to abolish the pre-devaluation patchwork pattern of subsidies for exports of manufactured goods. This was accomplished, but it was also the intention, in cases where the Government decided that devaluation did not adequately compensate for the removal of the previous subsidies, to substitute new subsidies on a straight cash basis. Two months elapsed, however, before the new subsidies were announced. Meanwhile, for manufactured exports, the suppression of the subsidies previously granted nullified much or all of the benefit of devaluation, and for exporters of many lines of engineering goods, iron and steel, chemicals, art silk goods, and cotton textiles and clothing the net impact of devaluation in combination with the elemination of import entitlements was small or sometimes negative.

66. With this very small or even negative effect on industrial exports and with the high export taxes imposed on tea and jute goods at a time when they were in difficulties because of external demand or raw material supply conditions, there was widespread expectation that some remedy would have to be provided. And this added an important element of uncertainty to an already difficult export situation.

67. New subsidies were indeed provided to some industrial products[1/] and the export duty on all but top quality tea was reduced in November 1966; that on jute goods in May 1967. Other duties underwent less drastic but frequent, readjustments.

1/ Cotton textiles, which constitute India's third largest export, have not received cash subsidies since devaluation. Prior to devaluation they did receive export incentives (which were abolished at the time of devaluation) and for some kinds of textiles, especially the better grades, these incentives amounted to more in relation to export values than the 57 percent benefit resulting from devaluation.

Exports of engineering goods, steel and chemicals are once again subsidized, since the latter half of 1966. The main subsidy is in cash, which is better than the old system for at least the value of the subsidy is known. In addition to the cash subsidy, since May 1967 some categories of exporters can buy domestic steel and pig iron at world prices. Combined with the 20 percent cash subsidy, this facility may be very important to exporters of, say, foundry products. It has been announced that this facility will be extended to a few other raw materials. The schedule of incentives was further revised upward in September 1967 for a wide range of products. Since April 1967 and increasingly since the revision of last September, entitlements to replenishment imports, which in many cases are larger than the actual import content of exports, again have a place among export incentives.

68. However, the piecemeal nature of this process, while improving the incentives for export, adds to the air of uncertainty surrounding export policy, and to expectations of further change.

69. Furthermore, the present system is still based on selectivity, the ultimate aim of which is to permit "each and every manufacturing unit to export a part of its production".1/ The greater or lesser profitability of given exports for the country is not reflected, or reflected only in a much attenuated fashion, in the prices received by exporters. This type of selectivity tones down the signals received from the world market. A much better case could in fact be made for precisely the opposite type of selectivity which, the better to amplify comparative advantages and overcome the producers' initial inertia, would enhance, rather than reduce, the differences in profitability presented by the market. Selectivity by itself tends to entail variability in returns over time, as incentives are changed and individual items are shifted from one category to another. This is variability of a kind which, because it is consciously decided by the Government, invites pressure from exporters and foreign importers to influence Government decisions. In addition, with all the uncertainty inherent in this system of administratively selected subsidies, it is difficult to undertake long-term commitments on the basis of such a complex and changing system.

II. Export Plans and Prospects

70. Government export objectives as described in the draft of the Fourth Plan, call for a roughly 50 percent increase in the overall value of exports. Compared to needs this is still a modest target. Even if it were fulfilled, 1970/71 exports would finance only about 50 percent of India's import needs, after taking care of debt service and invisibles. However, the course of exports last year and this year and the short run export outlook suggest that the final year targets of the Fourth Plan are no longer very meaningful. Nevertheless, they still throw some light on the feasibility of a target rate of annual increase of total exports of 8 to 10 percent. Eight primary and quasi-primary commodities - tea, jute

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1/ Speech of Minister of Commerce, reported in Times of India, March 19, 1967.

goods, vegetable oils, oil cakes, tabacco, cashew kernels, marine products, and iron ore, contributing about 60 percent of exports in 1965/66 were expected to provide about one-half of the planned increase in exports. 1/ An examination of the problem and prospects of these commodities leads us to the conclusion that, even with considerably more favorable export policies towards these commodities they can contribute less than 30 percent of the total desired increase of exports. Consequently, if a satisfactory overall rate of growth is to be achieved, exports of manufactures will have to grow much faster than projected.

71. This is not an impossible aim, given a few years to build up the necessary industrial export momentum. Exports of manufactures by underdeveloped countries grew buoyantly during the past decade, at an average rate of more than 15 percent; prospects for further growth are good. India's share of this market is small. For instance, in 1965 Hong Kong exported $360 million worth of made-up garments. India's exports of such goods amounted to $10 million in 1965 and would amount only to $40 million in 1970/71 according to the Plan. Her total exports of manufactures, other than jute goods, amounted to only $300 million in 1965/66 (and fell in 1966/67). This is such a small fraction of world trade that, provided the exports are competitive, no serious market problem need arise.

III. Policies for Export Growth

72. An adequate policy framework for aggressive export promotion must include scores of specific measures dealing with particular problems of production, distribution, foreign merchandising, competitiveness and profitability, etc. which are facing individual commodities. However, some requirements are common to all exports. Obviously they must be cheap enough to attract foreign buyers. But however regrettable it might be that an Indian product should fetch a lower price than an identical one made in Europe or the United States, this is a fact of life and must be recognized as such in the process of becoming well established in world markets.

73. Indian exporters must be given adequate encouragement, including adequate financial encouragement to overcome the domestic market orientation of their high cost, high priced economy and to face foreign competition abroad. It should be borne in mind that in terms of official encouragement, exporting gets much less favorable treatment than import substitution. No import gets into India without paying a duty of at least 27.5 percent except foodgrains and fertilizer, and no import is let in at all if it is likely to compete with any Indian product.

1/ The Government recently revised its target for tea exports from 300,000 tons to 240,000 tons thus reducing the total expected contribution of the listed commodities to about 42 percent of the total planned increase in export.

There are many ways in which export incentives could be enhanced, but whatever the ways, it would seem advisable to avoid differential selectivity among exports and to provide incentives for all or most exports on a uniform and stable basis. This would allow export profitability to vary in accordance with India's comparative advantages in international trade.

74. A much more dynamic marketing effort must also be made. Low prices and high quality must be part of it; but marketing implies much more than price. Notably, it implies investing money, time and effort in the promotion of one's products and in the establishment of machinery and channels for contact and distribution abroad. Willingness to adapt the product to foreign tastes and changes in foreign tastes is also required, which implies a continuing knowledge of foreign markets.1/

75. The public sector has an important role to fulfill in these fields by facilitating and by participating in a greatly expanded exploration and marketing effort abroad, with the resulting benefits to be available to interested parties on a freely competitive basis. Despite the need to guard against capital flight and luxury expenditures, ample provisions for legitimate business requirements must be made. Facilities for extension of export credit have also become an essential ingredient of international competition. This presents difficult resource problems, but porblems which must be solved if export development is to receive the high priority so crucial to India's economic future.

76. While considering export requirements in terms of additional incentives and other measures of export promotion, it is also worth noting that in the longer run an expanding export sector cannot be built on additional incentives alone. They cannot compensate indefinitely in world markets, for the inefficiencies and high costs of producers who can enjoy the profitability ofaa highly protected domestic market without pressure to come up to internationally competitive standards of operation. To compete effectively abroad, Indian industry must be strong, and efficient firms will have to be able to outgrow and even replace the less efficient.

1/ One major cause of the unsatisfactory export performance of Indian textiles seems to be the inflexibility of Indian mills in adapting to the size and design specifications of their foreign clients. This is not purely a problem of business mentality. Efficient firms do not have to make a great export effort, having a better market at home; other firms cannot make it. The situation may well change if competition increased on the domestic market; but so long as the Government ensures that raw material supplies should be spread around "equitably", competition is minimized. It may now be increased with recent measures to decontrol raw cotton distribution.

D. POPULATION CONTROL

77. In the Bank's last economic report on India it was stated that "the Government of India has now begun to conduct a vigorous, determined and purposeful program"1/of population control. It went on to say that "although setbacks can occur and are to be expected, and although the new effort has not gone nearly far enough to disclose the motivational, technical and other problems that may yet be encountered, there is now a basis for hope that the program as it is enlarged will bite sufficiently widely and deeply to put a measurable break on population growth in India in not too many years." These statements still hold.

78. No major administrative change has occurred since those described in the last report. The dynamism, dedication and overall competence of the administrative services dealing with family planning at the Center continue to be most encouraging. Even under the present restrictive financial policy, high budgetary priority continues to be given to family planning expenditure. Total expenditures by the Center and the State budgeted for family planning in 1967/68 are roughly double the preliminary estimate of last year's actual expenditures. Rupee finance is not an important constraint on family planning.

79. The shortage of skilled personnel is a much more serious obstacle. As described in the previous report, financial incentives to general practitioners and scholorships to medical students are one of the means used to obviate this shortage. Nevertheless, the main solution must lie in the accelerated training of more specialized personnel. Unfortunately, there is an even more acute shortage of staff capable of giving such training; of the staff of 430 required for the 46 training centers sanctioned so far, only about one hundred have yet been found.

80. For some time the family planning program may have placed a somewhat lopsided emphasis on the intrauterine contraceptive device. The experience of the past two years, during which more loops are said to have been inserted in India than in all of the rest of the world combined, shows that substantial technical and physiological problems are still connected with the loop. A large proportion of the loops are expelled or have to be removed each year, although no more than would be expected according to the experience of other developing countries. Bleeding and similar complaints are frequent and constitute the main reasons for removal. And exaggerated rumors of the seriousness of post-insertion reactions have resulted in setbacks in the program, especially in Bengal and Gujerat, before they could be counteracted. No doubt partly because of the high rate of removals that is required and because of temporary setbacks, there has been no dramatic increase in the monthly number of insertions over the past year; a total of about 900,000 insertions were made. An increase in insertions is expected

1/ Indian Economic Policy and the Fourth Five Year Plan, AS-122b, June 1967.

this year although the current year's target of 2 million insertions, a monthly average of 160,000, is unlikely to be fully achieved. The Government seems to be well aware of these difficulties, and of the fact that, at least under its present form, the IUCD alone is not the solution to the population problem.

81. The emphasis given to the IUCD did not occasion any letup in the sterilization program. 850,000 sterilizations - mostly vasectomies of males - were performed in 1966/67. This was 300,000 more than in the previous year. As distinct from other methods of contraception, sterilization is in practice a once and for all operation; the affected couple is permanently removed from the fertile population. However, precisely because of this, sterilization is expected to be used only by couples with several children, while the IUCD could optimally be used also for spacing births.1/

82. According to present thinking, less than half of the planned reduction in birth rate from 41.7 to 25 by 1976 2/ is to be obtained through the IUCD method. This calls for about 7 million IUCD's in place by 1971 and about 17 million by 1976, which in turn would require about 3 million insertions in 1971 and about 6 million in 1976. More than half of the planned reduction of the birth rate is to be obtained through sterilization, essentially vasectomy. Given the demographic distribution of sterilization cases, this implies that in 1976 about 25 percent of active males and a much higher proportion of those over thirty will have been sterilized. These will be difficult ratios to achieve.

83. Other contraceptives means are also given greater emphasis now and none will, in principle, be excluded. The condom factory in Madras is being expanded from about 30 million to about 60 million units per annum. A legal study of the possible relaxation of abortion laws is pursued. The Minister of Health and Family Planning has raised the possibility of raising the marriage age to 18 years. Oral contraceptives are now being introduced as part of the program. This might also become a useful addition to the arsenal of the Indian population planners.

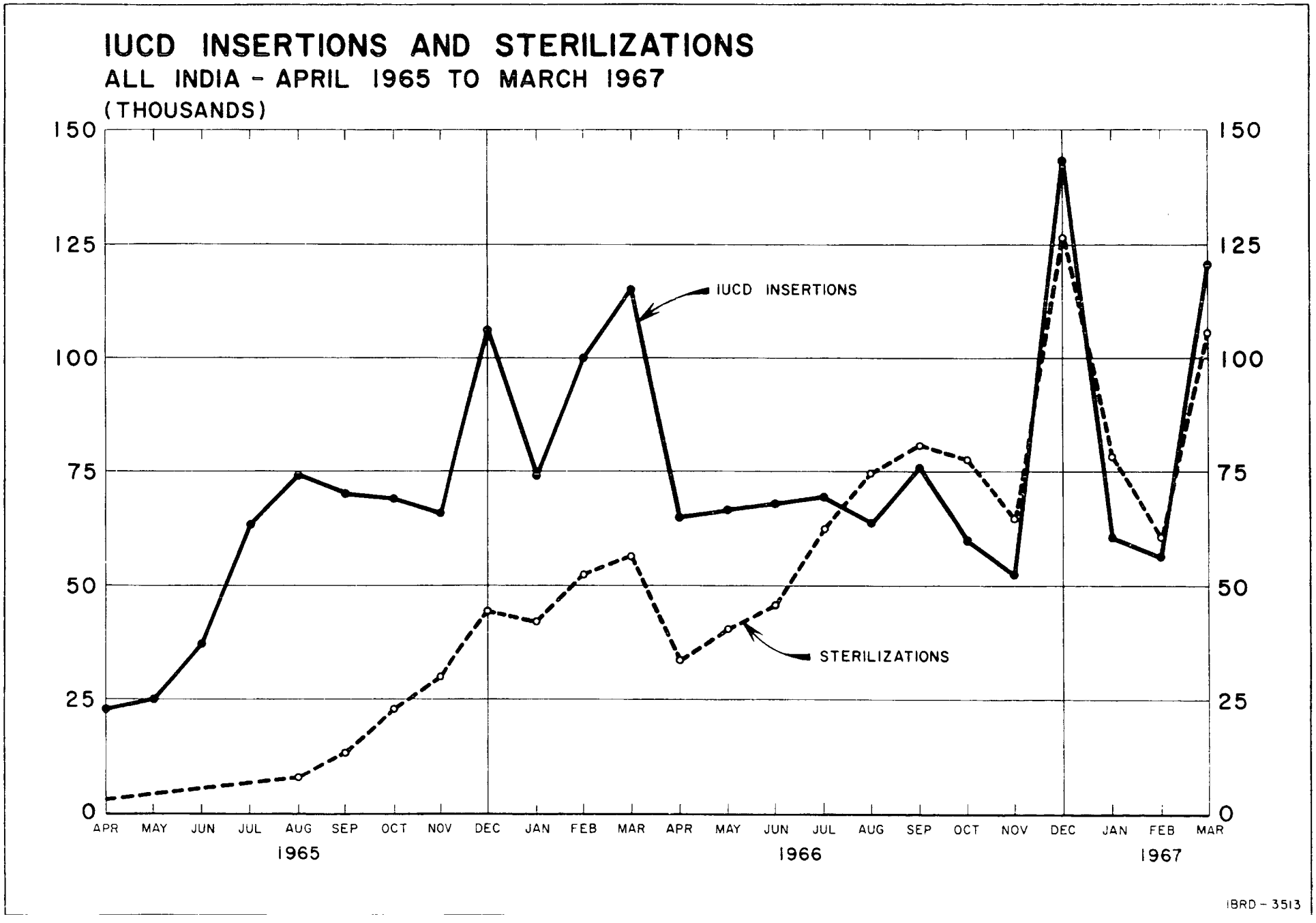
84. Nationwide advertising of family planning has also been undertaken through a variety of media, and pilot programs of mass subsidized condom distribution, which have been most successful, are now being extended to several additional areas. Commercial firms distributing in mass consumption goods, e.g. matches, are being enlisted to assist in condom distribution.

1/ However, in the only study available, the average number of children of IUCD acceptors was 4.76, with a standard deviation of 2.05 while the average for vasectomy cases was 4.61 with a standard deviation of 1.59.

2/ Per 1,000 of population.

85. As noted above, domestic financing is now not a major obstacle to expanding the program. Foreign exchange has been a more serious bottleneck. It is said, for instance, that if an additional few million dollars of free foreign exchange had been released in time, 30 million more condoms could have been imported and used last year. The shortage of jeeps also constitutes a significant bottleneck. The recent action of the United States to finance imported contraceptives is an important contribution to the family planning program. India is now beginning to set up some of its own programs of research to develop new contraceptive techniques and improvements in existing techniques without necessarily waiting for financial or scientific contribution from abroad. The program also needs demographic and motivational research, which is all the more urgent that the family planning effort, if it is to spread as intended, will have to motivate a rapidly increasing proportion of the Indian population.

86. An early impact on Indian demographic trends is not to be expected because the age structure of the population is such that other things being equal, the birth rate still tends to rise and the death rate to fall. And while the estimated number of contracepting couples has more than doubled in the 18 months from mid-1965 to the end of 1966, this was from small beginnings and is still a drop in the bucket in relation to the number of couples of child-bearing age and the size of the Indian population problem. It will take time before population growth slows down considerably. But the problem is being tackled through an intelligently conceived and well-administered program.


IUCD INSERTIONS AND STERILIZATIONS
ALL INDIA - APRIL 1965 TO MARCH 1967
(THOUSANDS)
150
125
100
75
50
25
0
IUCD INSERTIONS
STERILIZATIONS
APR MAY JUN JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC JAN FEB MAR
1965
1966
1967
IBRD - 3513

CHAPTER IV

THE SHORT-RUN OUTLOOK

(a) Introduction

87. In considering the prospects for the coming 18 months, the main determinant of the rate of recovery from the recession, as was argued in Chapter II, is the food supply. In the first place, good harvests would increase agricultural incomes or, to the extent that relative food prices fall, would increase consumers' real incomes. Similarly, there would be improvement in supplies of agricultural raw materials such as as raw cotton, jute, sugar and vegetable oils, thus relieving some constraints. Secondly, given the Government's concern over the recent rapid price increases, a good harvest, if it were to cut off the present inflationary pressures, could open the way to a partial relaxation of present fiscal and monetary policies. With these developments, industrial production could be expected to respond and the investment rate should rise. At the time of writing, although there is a consensus that the 1967/68 crop will in all probability be high - perhaps as high as 95 million tons - this cannot yet be assumed; it would require both good kharif and rabi seasons. Also, after droughts of a severity not seen since 1943, it is difficult to predict the response the economy may make to a good crop. Moreover, the timing and extent of any possible relaxation of fiscal and monetary restraints cannot be accurately pre-determined.
It must be stressed that these factors, plus the usual statistical problems, introduce considerable uncertainty into any short-run forecast, and the following sections should be read in that light.

(b) The 1967/68 Annual Plan

88. The 1967/68 Plan, issued in July, presents a fairly optimistic assessment of the economic outlook for the year, as follows:1/

> "The economic outlook for 1967/68 is linked, first and foremost with prospects in agriculture. Given reasonably good monsoons, a grain harvest of around 95 million tons should be quite likely. Given a good agricultural season, industrial production should begin to pick up significantly in the second half of 1967/68. A good agricultural season may result in the prices of food and other farm produce seeking somewhat lower levels than the inordinately high levels reached at the end of June 1967. If so, this is likely to have a favorable impact on urban demand for manufactures. The policy of liberalization of maintenance

1/ Annual Plan 1967/68, Planning Commission, New Delhi, July 1967. Pages II-14 to II-25 passim.

Imports adopted towards the middle of 1966/67 should also show its full results in 1967/68. As a result of these factors, it is quite likely that the industrial production during the second half of 1967/68 may show an increase of 6 to 7% over the corresponding period of 1966/67. Taking the year as a whole, the increase may be of the order of 5% over the previous year. The sharp increase in agricultural production and the pick up in industrial production would benefit the tertiary sector which might show a 4% growth. On the above anticipations regarding the growth of agricultural and industrial production and income generation in the tertiary sector, the increase in national income in real terms would be about 12.4%. The Wholesale Price Index might also rise by 12%."

89. There seems reason to question both the speed and the extent of the surging recovery assumed above. The first half of 1967/68 has already passed, and from all the indicators available it would appear that industrial output has remained fairly stagnant or may even have fallen slightly. Since the initial stream of higher consumer income that would flow from a good kharif crop would not begin to affect final demand until the third quarter of 1967/68 at the earliest, and since there will still be uncertainty about the rabi crop, it seems unlikely that output of consumer goods industries will begin to rise significantly until 1968. Moreover, after two years of depressed agricultural output, there will be many other claims on farmers' incomes. The uncertainties holding back private investment, described in Chapter II, likewise seem unlikely to evaporate swiftly enough to enable much new investment to take place before the end of the fiscal year. Lastly, there is as yet no sign of any slowdown in the price increases, in that the wholesale price index has climbed 8% in the first four months of 1967/68, and food articles have apparently risen in price by no less than 17% over the same period compared with 13.5% in the same period in 1966/67. This latest overall price increase is directly caused by the food element, other items being fairly stable, and appears to result from acute grain shortages (particularly wheat) uncertainty about future supplies, supported by continuous credit expansion, mainly to Government, at a rate around one-third below the 1966/67 level. Given this performance, which indicates an extension of credit to Government well in excess of the level implied by the 1967/68 budget, the prospects for a lessening of the pressure on prices, and thus additional public sector investments in 1967/68, seem remote indeed.

90. Considering all these factors, it is probable that industrial output in 1967/68 will remain at about the 1966/67 level, with some increase in output in consumer goods industries and in those based on agricultural raw materials in the last quarter, offsetting the earlier declines and the slowdown in the capital goods sector. The tertiary sector will probably likewise stagnate, so that even with a recovery in farm output national income in 1967/68 may rise by perhaps 8-9%, rather than the 12% forecast. However, the industrial sector, led by consumer goods industries, should show a fairly sustained growth during 1968/69 as the multiplier effect of a good 1967/68

harvest takes hold. The outlook may thus be as follows:

Index of Net Domestic Product in Constant Prices
1960/61 = 100

	1963/4	1964/5	1965/6 Est.	1966/7 Est.	1967/8 Proj.
Agriculture and related sectors	101	108	93	95	115
Manufacturing and mining	116	123	128	132	132
Commerce, transport, and other services	118	130	138	138	138
Net domestic product	110	118	113	116	126

(c) Prospects for Recovery

91. Because of the observed sensitivity of the price of food to supply and demand conditions, any judgment on the prospects for 1968 must start with the food price outlook, because it is not at all evident that even a 95 million ton crop will ease the food supply and price situation sufficiently to loosen financial constraints and permit any substantial investment expansion. An illustration of the food availability and price situation since 1955/56 is annexed as Table III. Assuming that the harvest reaches 95 million tons, then allowing for normal wastage and retention of seed, the available production would be about 83 million tons, a 25% increase over last year's availability. Prima facie, such an increase should result in at least a relative price decline and probably a small absolute price fall. However, there is an urgent need, as was indicated in Chapter II, for the establishment of a large Government buffer stock, which should represent a high priority claim on available supplies, and for the replenishment of Government operating stocks which are at a low level. It would be desirable to build up such stocks fairly quickly although there are obstacles in the way, including financial obstacles, which will limit the pace at which an adequate buffer stock can be accumulated. For fiscal reasons it would seem difficult for the Government to procure domestic grain for official stocks, over and above adequate official working stocks, of more than a million tons in the course of the coming year. This would be only a small beginning toward an adequate stock[1] and it would be helpful if the buffer stock accumulation could be accelerated by aid-provided foreign grain - in addition to the food imports that will be required for consumption purposes.

1/ Storage capacity owned by the Department of Food and the Food Corporation of India now stands at about 2 million tons, and the Government estimates that another 2 million tons of storage space could be mobilised from private and cooperative sources. However, the mission is not well informed about the adequacy or the regional distribution of these facilities, or their efficiency.

92. The latter requirements are of course very difficult to estimate at this point in the crop year and with all the uncertainties that there are about the amounts of any given level of grain production which will move into commercial channels. If grain production should reach about 95 million tons in the current crop year, it may still be necessary to import 5 or 6 million tons, or perhaps more, for consumption purposes in view of the substantial part of the increase in the crop that is likely to be taken up by larger farm consumption and rebuilding of farm stocks and private commercial pipelines. With a 95 million ton crop and imports of 6-7 million tons[1/] for consumption and increases in stocks the total availability (after allowing 2 million for an official buffer stock) would increase by about 12% or about 10% per capita. This is a very uncertain prospect, however because of the uncertainty of crop prospects and the difficulty of assessing food aid prospects very far in advance.

93. Past experience suggests that an improvement in availability of this magnitude would almost certainly be followed by a significant relative price fall in the period following the harvest, as Appendix Table III indicates. However, because privately-held stocks are at unusually low levels, and because of the import uncertainty and the usual lack of assurance about the following year's crop, it is possible that the relative price fall will be small at least until there is an expectation of a good kharif crop in 1968/69. This would not of course delay the start of the recovery process in that rural incomes will almost certainly increase and hence increase demand for consumer goods. However, the progress of recovery of public and private investment may well be delayed until there are better prospects of stability of food prices. Moreover, the latitude the Government at present possesses to increase public sector investment is small, because deficit financing is still continuing despite this year's economy efforts.

94. There are other elements in the present situation to hamper the pace of economic recovery. Much of the present idle industrial capacity is concentrated in the capital goods industries. This is partly attributable to expansions of capacity which would be well ahead of the growth of demand even under much more active economic conditions. For example, recovery of the economy would not require substantial increases in railway investment for some time, and assuming the absence of premature and low-priority investments, excess capacity would be likely to continue in the large segments of the engineering industry that are linked to railway expansion. Similar situations exist in other public and private heavy industries where capacity has been built to supply a higher investment level than is probable in the next year or two. Another delaying element of some importance in the recovery process is the substantial accumulation of finished stocks that has taken place in many parts of the engineering industries. In other words, both output and investment may respond fairly slowly to increases in demand, so it is not very likely that there will be a substantial economic revival in the current year except perhaps in consumer goods industries. With satisfactory weather and a good 1967/68 crop, the recovery process should get started.

1/ i.e., 5-6 million for consumption and 1 million for official buffer stocks.

But the real momentum of recovery, including the necessary revival of public and private investment growth, will probably not be possible until there are all the signs of a second good harvest year and these could not be evident before late summer of 1968. The implications of this analysis for the balance of payments and aid requirements for this year and next is analyzed in Chapter V.

CHAPTER V

BALANCE OF PAYMENTS AND AID REQUIREMENTS

(a) Trends and Prospects in Payments and Import Licensing

95. In discussing the recent behavior of the balance of payments, the prognosis for the near future, and the implications for aid requirements the main variable is the import level. This can be analysed with reference to the volume of import licenses issued, import arrivals (as recorded in customs data) and import payments. All three indicators show different trends - with the difference between import arrivals and payments often being in the range of $100-200 million, and with license issues and use being subject to yet different influences. Since the basic question of external finance at present is whether the expected recovery of the economy can be achieved without re-encountering the foreign exchange constraint, the import payment data trends clearly are more relevant than the trade data, and are thus used in the discussion below. The recent trends in import licensing are also used to help forecast import payments, but with the recognition that the factors affecting license issue and use are quite different now compared with pre-devaluation and pre-decontrol days. The absence and unreliability of statistics, on top of the uncertainties surrounding the recovery forecast, introduce a further possibility of errors.

96. The recent behavior of exports has already been discussed in Chapter III, pages 21 to 25. In 1967/68, given good crops, exports appear likely to rise, but to something less than the 1964/65 level, say $1,675 million, with the main increases being in jute goods, tea, and also iron and steel products and iron ore. Thereafter, export growth performance depends on external markets and in large part on the success of Government incentive and other export promotion policies, and with some optimism a forecast of a further 7.5% increase to $1,800 million is assumed for 1968/69.

97. Import behavior is less easy to explain and predict. Apart from an increase in food and project-tied imports in 1965/66, that year was characterized by a very sharp drop in "maintenance" goods imports partly because of the decline in national income but partly also because import licensing was curtailed because of expected adverse trends in reserves and the balance of payments. Import licensing thus fell from $1,913 million to $1,369 million.1/ Devaluation in June 1966 was followed by measures of import decontrol in August 1966, and the expectation at the time was that imports would soon surge ahead in response to the supposed pent-up demand for imported intermediate goods. The demand for licenses certainly boomed, by almost $1 billion, to the record level of $2,346 million.

1/ See Appendix Table XVI.

98. Paradoxically, however, imports and import payments showed no corresponding movement, with maintenance imports rising in 1966/67 to only $1,553 million, still significantly less than in 1964/65. Reference may be made to Table A page 40. The basic cause of this slow growth would seem to be the industrial recession and the stagnation in real national income, plus the uncertainty and higher costs induced by the devaluation. Also, since there is frequently a lag between licensing and arrivals of between 6 and 15 months, according to the commodity, it could not be expected that increased imports would actually begin to flow until the second quarter of 1967 because the bulk of the new licensing took place in August and September 1966. However, there is as yet no firm evidence of a surge in import arrivals or in license utilization, and in fact such evidence as exists - for example the slow rate of utilization of the IDA industrial imports credit or the apparently slow rate of issue of supplementary licenses (issued to importers on demand when a given proportion of the initial license is used) support the contention that the level of imports is determined more by trends and prospects of economic activity than by the immediate license issue.

99. The revival of the economy with a good crop, as discussed in Chapter IV, will probably not begin in earnest until towards the end of the fiscal year, and then the main initial impact will be on consumer goods industries which have a fairly low import content. Rapid revival of public and private industrial investment will probably not become an important factor until the summer of 1968. In other words, it is probable in the earlier phases of recovery that the upturn in imports will not be as sharp as the revival in industrial activity. Also, the present level of stock of finished goods in manufacturing industry appears to be higher than usual. However, fertilizer imports this year seems likely to increase sharply by up to $150 million. In this light, maintenance imports in the current year, 1967/68, will probably be around 12% higher than 1966/67 with, a further 12% growth the following year; thus reaching levels of about $1,750 million and $1,950 million, respectively.

100. It should be stressed that these estimates of import levels imply, however, that at least for the next two years the growth in maintenance imports will be somewhat greater than the growth in the economy as a whole, despite the effect of devaluation on prices of imported goods. However, we see no evidence to support the contention of the Indian authorities that maintenance imports will rise by 36% in 1967/68 to $2,109 million. (See Table on Page 40). Such an increase could take place only if a large speculative demand for stocks of imported goods emerged, and if credit to finance such stocks were to exist. The remote possibility of an early and very rapid recovery of the economy could also boost imports, but there is no sign of this in the first half of the year. Since decontrol, there has probably been a speculative element in the demand for licenses, and in fact, however, licenses issued from 1964/65 through 1966/67 exceed comparable import payments by no less than $1 billion, and if licenses issued in 1967/68 reach the level assumed by the Indian authorities of $2,300 million, then the excess of the volume of licenses over payments in the same period would be in the order of $1.5 billion. The validity of a significant proportion of these outstanding licenses has doubtless expired. It is nevertheless clear that the Indian authorities have had to issue licenses well in excess of the foreseeable resources against which payments might have to be made, but it is also highly probable that, in

contrast to the experience before decontrol, a significant portion of these licenses will go unutilized or will be utilized very slowly. This could quickly change, of course, if anything should happen to shake confidence in the continuation of the import decontrol program.

101. In other words, since the commencement of the liberal import licensing policy it is no longer possible or desirable to control the level of imports as exactly as before - which has implications for aid commitments. It would, of course, always be possible to maintain the liberal policy but to limit import demand to whatever are the exchange availabilities, by appropriate financial policies. But given the present limited aid pipeline this would be tantamount to clamping down on any economic revival before it gains much momentum. At the other extreme, however, although the Government cannot curtail the issue of licenses if it is to maintain the creditability of the liberal import policy, it is not essential for the Government to have assured foreign exchange resources (in the form of its own exchange earnings plus aid commitments) to cover every license issued, because of the distinct likelihood that many licenses will either not be used at all or will be used with considerable delay. Thus, the expected level of license issue is not, under these new circumstances, an appropriate criterion for assessing aid commitment needs. Rather, it is necessary to ensure that the Government has the resources necessary to meet the expected level of import payments, and also to ensure that the necessary resources are in the aid pipeline sufficiently far in advance to avoid a hiatus in import payments.

102. It would be misleading, however, to suggest that the probability of future foreign aid can be used as a basis for current import licensing. The procedures for using tied aid make it quite difficult for most of the aid and impossible for a considerable part, to apply aid commitments to import licenses previously issued. The resource basis of import licensing is therefore largely confined to prospective balance of payments receipts on current account, aid already committed, and such aid as can be foreseen in advance to be either freely usable or retroactively applicable to outstanding licenses or actual imports. The freely usable portion is so far quite small and the retroactively usable portion, although usually somewhat larger, also involves procedures and conditions which cannot be definitely anticipated.

103. These and other difficulties in the use of tied aid emphasize the need for greater aid liquidity. At the present low level of India's foreign exchange reserves it is of the greatest importance that enough of this year's new aid commitments be in a sufficiently liquid and quickly usable form to meet the uncovered payments deficit. In particular it is important that as much of this year's aid as possible be made retroactively usable against payment obligations from the beginning of the current fiscal year. Without sufficient liquidity in this year's aid there will be losses of exchange which will be serious. This is already happening. It demonstrates that at least so far this year the availability of new liquid aid is inadequate. Since the beginning of the fiscal year India's foreign exchange reserves have fallen by $60 million (during April-September), and this despite debt relief or rescheduling by some foreign creditors of more than $50 million. At the level of $577 million near the end of September, India's foreign exchange

reserves were equivalent to hardly more than two months imports at the depressed 1967 import level. This is not only a serious problem of the moment but will continue to be serious unless there is a larger share of foreign aid in a freely usable form. The need will be just as important next year and thereafter as it is this year. It is for this reason that debt rescheduling is of such significance in any satisfactory Indian assistance program.

104. On the basis of the discussion below, it is clear that, although immediate aid requirements are less than had originally been estimated because of the recession in economic activity, the aid pipeline is getting undesirably short, and new, quick-disbursing non-project aid will be necessary to meet some of the maintenance import requirements of both this year and next year if the liberal licensing policy is to be continued. Also, there will be a need for new project aid to help finance the import elements of a revised investment program. The only escape from this need for continuing large net aid flows, would seem to be through substantial export growth combined with higher rates of saving. But this appears to be a solution for the longer run rather than for the next few years. It seems clear that any solution which would rely on domestic savings and import substitution as the answer to India's balance of payments and development requirements, even in the long run, presupposes a degree of Indian independence from imports which is neither practical nor realistic in any context in which the economy grows faster than the population.

(b) Aid Requirements

105. The basic framework of India's balance of payments, for the past three years, together with forecasts by the Government of India and the Bank for the current year 1967/68, and by the Bank for next year, is presented on the following page. The levels of exports and maintenance imports have already been discussed above. Food imports reached record levels in the drought years, and with good harvests this year should fall somewhat in 1968/69. The food imports and food aid estimate for 1967/68 reflects the commitments made as of mid-September 1967. The urgent need to help India replenish private and public food stocks and build up an official food buffer stock means that food imports in 1968/69 should not fall below six million tons even if the harvests are good. It is assumed here that commercial food purchases will fall from their recent high average level of $200 million a year to about $150 million in 1968/69 but to the extent that food aid (in the form of food) of $400 million does not materialize the requirements for non-project "cash" aid would increase. Hopefully, good harvests and continued progress by the Government in its agricultural program, will sharply reduce, and possibly eliminate, the need for significant food imports by 1970/71. The expected drop in project-tied imports in 1967/68 and the projected 15% increase in 1968/69 are based essentially on the assumed trends in investment expenditure discussed above.

106. It is important to note in the above balance of payments estimates of the IBRD for 1967/68 and 1968/69 that transactions with the IMF have been left blank. Actually India has large obligations to the IFM amounting

TABLE A
BALANCE OF PAYMENTS
(US$ million)

	1965/66 1/	1966/67 2/	1967/68 Our Est.	1967/68 G.O.I. 3/	1968/69 Our Est.
Imports - Total (c.i.f)	2,803	2,892	3,050	3,415	3,150
(a) Food	598	743	720	721	550
(b) Project-tied	729	560	520	525	600
(c) Other PL 480	66	36	60	60	50
(d) Other Imports 4/	1,410	1,553	1,750	2,109	1,950
Exports - Total	1,642	1,558	1,675	1,700	1,800
Trade Balance	-1,161	-1,334	-1,375	-1,715	-1,350
Other Transactions	- 267	- 434	- 455	- 515	- 520
(a) Debt Service 5/	- 270	- 320	- 370	- 449	- 430
(b) IMF Repayment	- 75	- 57	10/	- 57	10/
(c) Others, Net 6/	+ 78	7/- 57	- 85	- 9	- 90
Overall Deficit	1,428	1,768	1,830	2,230	1,870
Financed by:					
(a) Food Aid	460	550	450	411	400
(b) Project Aid	729	560	520	525	600
(c) Other PL 480	66	36	60	60	50
(d) IMF Drawings	137	187	10/	-	10/
(e) Use of Reserves (decrease +)	- 101	- 9	nil	nil	nil
(f) Non-project Aid Disbursements, from commitments made in 1966/67 and before	137	(165 8/ (279 9/	(450 8/ (50 9/	484	285 8/
(g) Disbursements Required from Commitments in 1967/68 and 1968/69	-	-	300	750	535

1/ Preliminary. 2/ Estimate.
3/ As estimated July 19, 1967 by Finance Ministry.
4/ This category consists mainly of "maintenance" imports - i.e. raw materials, spare parts, etc; - plus a small amount of capital goods not financed by project-tied aid.
5/ Excludes service payments on suppliers' credits; the import data also apparently excludes imports so financed.
6/ Includes invisibles, autonomous capital movements, errors and ommissions.
7/ Includes remittances under National Defence Remittance Scheme.
8/ From the initial pledge of $900 million made in 1966/67.
9/ From other prior commitments.
10/See paragraph 106.
NOTE: Statistical uncertainties make these estimates subject to a considerable margin of error.

to over $400 million of which substantial amounts are repayable in this period. The $187.5 million drawn just before devaluation is due for repurchase before the end of 1967, $200 million drawn in the seven months after the March 1965 stand-by arrangement is due for repurchase not later than three years after each drawing, and $30 million remains to be paid in annual instalments as a result of the increase in India's IMF quota last year. There is the possibility under IMF practices of rescheduling these repurchase commitments within certain limits. This is now under consideration and at present it is not possible to assess what the repurchase pattern will be. After taking account of rescheduling possibilities the India authorities believe that about $200 million might have to be provided for this purpose during this year and next year. To the extent that there would be such net repurchases from the Fund, the above estimates of the deficits in the balance of payments for this year and next year would be correspondingly increased.

107. After taking into account exports, full interest and amortisation payments on schedule, other net payments on invisibles and private capital movements, and assuming no change in the net IMF position, the overall deficit to be financed this year will probably be about $1,830 million. It will probably be about the same next year. This would mean an increase in the deficit by almost $300 million in a three year period - not a happy outcome. The fundamental problem is that imports this decade have so far risen over 40% more than exports, and debt service has tripled. If food imports after 1968/69 begin to diminish sharply then these adverse trends in the overall deficit should be reversed and the need for continuous food aid would probably also disappear, but the remaining deficit then is unlikely to be much more manageable than it is now.

108. To finance this overall deficit in 1967/68 food aid in the form of food has already been committed and should amount to about $450 million. Project aid disbursements, mainly from old commitments should reach $520 million. If this target is not reached, there would of course be an offsetting reduction in import payments. This leaves a remaining gap of $800 million, much of which should be financed by disbursements out of past non-project aid and mainly from the $900 million committed last year, all of which was available to India by June 1967 and only a small part of which was used last year. On the basis of aid utilization so far, it appears that further to $165 million disbursed in 1966/67, disbursements from this source during 1967/68 may be about $450 million (thus leaving $285 million over for disbursement in 1968/69). After allowing for disbursements of $50 million from non-project aid commitments made prior to April 1, 1966 and $60 million for non-food PL480 assistance the remaining need for disbursements for 1967/68, uncovered by commitments as of April 1, 1967, is $300 million. The ways in which this remaining gap might be filled are discussed below in paragraph 111-114.

109. Turning to 1968/69, although it is of course difficult to assess the balance of payments outcome precisely, it appears that the overall trade deficit is likely to remain at about the same level as 1966/67 and 1967/68, i.e. $1,300 million, but debt service payment obligations

(exclusive of any rescheduling of debt payments) will rise by over $50 million to about $430 million, increasing the probable overall deficit to about $1,870 million. Of this deficit, about $285 million can probably be financed out of the remaining balance of the $900 million pledged in 1966/67, and it is assumed that $50 million of non-food PL 480 commodities will also be available. This would leave an overall deficit of $1,535 million to be covered by new food aid, project-tied aid from both new and old commitments, commodity aid from next year's new commitments, and from commitments made in this year, and from debt rescheduling or relief.

110. Before considering the size of the commitments necessary to meet the disbursement requirements in the current year and next year, two points may be made. Firstly, although there is a prospect of a somewhat lower external deficit in 1969/70 and 1970/71 because of the improved food production prospects, it may be presumed that there will also be some corresponding reductions in food aid, still leaving the need for project and non-project finance. The size of these future deficits is difficult to predict from this point in the depression, but it would need a sharp improvement in exports for the deficits to be significantly smaller than today's. There is thus a continuing need for disbursements of assistance which has to be committed far enough ahead to enable import arrivals and payments to flow smoothly. In other words, an adequate aid pipeline has to be maintained. The second point arises out of the relationship between new investment and the level of operations of the capital goods industries. The latter can increase their output only if there is a demand for their products arising out of the execution of investment projects. So, there is a foreign exchange need both for imported materials for the capital goods industries and for the imported equipment component of investment projects. Hence, there is a complementary need for aid for both purposes. With most aid tied by source and much of it by commodity, and with trade earnings in Eastern Europe limited to expenditure in that area, India has little margin for project imports from its own exchange after covering maintenance imports not financed by aid, commercial food imports and debt service. Therefore, unless aid is made available on a much more liberal and fungible basis, it is necessary to ensure that the aid package for India provides adequately for both project and non-project assistance.

(i) Non-project Aid Requirements

111. Regarding the specific commitments which are needed in the current year 1967/68, there are thus two objectives. First, the commitment must result in disbursements of about $300 million during this year; second, there must be a carry-over into next year of a commitment that will result in disbursement of an amount in 1968/69 that meets a substantial portion of 1968/69 needs. A substantial portion means, in

effect, that portion of the aid gap which cannot be financed in 1968/69 out of 1968/69 commitments - and it thus further assumes that the size and timing of commitments in 1968/69 are similar to those in 1966/67 and 1967/68.

112. As can be seen from Table A on page 40, and Table B below, the total disbursements of non-project, non-food aid likely to be required in 1968/69 is about $820 million, of which $285 is already committed leaving a balance of $535 million. It is probable that under normal circumstances about $185 million of this balance could be met from next year's (1968/69) commitment, leaving about $350 million to be met from this year's commitment. This year, the IBRD has disbursed $50 million in interim debt relief, so new disbursement from other aid committed this year must reach the balance of $250 million out of the $300 million needed. Allowing $150 million carry-over into 1969/70, the total non-project commitment required this year is thus about $750 million. For a tabular explanation see Table B row 3.

113. If this sum is committed, then the non-project pipeline into 1968/69 will be about $785 million (i.e. $500 million undisbursed from a potential commitment this year of $750 million plus $285 million from the commitment in 1966/67 of $900 million). This is the same as the pipeline carried forward into 1967/68 from last year (i.e. $50 million of earlier aid plus $735 out of last year's $900 million). For details see Table C below. The pipeline into 1969/70 depends of course on the level of commitments made next year, but in order to achieve the same pipeline a commitment next year of about $820 million would be necessary (Table B row 4). If the recovery of the economy is reasonably rapid, it might be necessary to commit a slightly larger sum than this pipeline calculation would imply, so for the present the tentative estimate of the 1968/69 commitment could be set at $800-900 million. As Table B row 4 shows, this should suffice to meet disbursement requirements in 1968/69, as long as the full $750 million is committed this year.

114. As was suggested in Chapter IV, there remains in 1967/68 an urgent need for continued food aid, even if there is a good food crop, because if a food-deficit-induced recession is to be avoided in the future, a large official food buffer stock must be established. It is tentatively estimated in Chapter IV that food import requirements should be 5 or 6 million tons for consumption purposes and a million tons for official stockpiling. This would suggest minimum import requirements of about 6 million tons. It could well be more if harvests belie current optimism or if there were foreign aid and Indian capability for larger grain stockpiling. Hence, there is need for continuation of substantial food aid. The value of food imports, in the order of 6 million tons, is put at $550 million in the balance of payments estimates for 1968/69, and food aid at $400 million, leaving about $150 million to be financed from India's own resources. Considering the high priority of food imports, if food aid were to fall short of requirements, the shortfall should be covered by commercial purchases. This would mean of course that other non-project aid requirements would be increased including requirements of aid in a liquid form.

Table B

NON-PROJECT AID COMMITMENTS AND DISBURSEMENTS

(US $ Million)

Commitments		Disbursements in: 1966/67 Actual	1967/68 Est.	1968/69 Est.	1969/70 and beyond
(1) Old commitments	n.a.	279	50	nil	nil
(2) 1966/67 commitment	900	165	450	285	nil
(3) 1967/68 commitment (needed)	750	nil	250	350	150
(4) 1968/69 commitment (tentative requirement)	820	nil	nil	185	635
Total Disbursements		444	750	820	785

Table C

NON-PROJECT AID PIPELINE

OUTSTANDING COMMITMENTS AS OF APRIL 1

(US $ Million)

Balance of:	1967	1968	1969
(1) Old commitments	50	nil	nil
(2) 1966/67 commitment	735	285	nil
(3) 1967/68 commitment a/	-	500	150
(4) 1968/69 commitment b/	-	-	635
Pipeline as of April 1	785	785	785

a/ Assumed to be $750 million.
b/ Assumed to be $820 million.

Note: These tables are illustrative, and are based on two main assumptions. First, the pipeline is assumed to be maintained at the April 1, 1967 level of $785 million; second, disbursements from each tranche of commitments are assumed to follow a consistent pattern, with about half the disbursements taking place in the year after commitment, and all disbursements completed by the end of the third year. In 1967/68 disbursements in the year of commitment are presumed to be a little higher than average because some early, quick disbursing commitments were made. Evidence about the rate of utilization of licenses issued for aid-financed imports is however unnecessarily scanty, so the second assumption is subject to revision.

(ii) Project Aid

115. The amount of new project-tied aid India will need in the coming two years is difficult to estimate at present. For one thing, the exact sum likely to be disbursed out of old commitments is not known because this depends in part on the level and composition of next year's public sector investment expenditure. The position of non-consortium project-tied is particularly unclear and the existence of large unutilized balances as especially from the U.S.S.R. makes it difficult to estimate the amount available for project lending. Likewise there is no satisfactory basis at present for estimating total project aid disbursement required for 1968/69 but, to ensure that investment recovery is not restrained by a foreign exchange bottleneck, project aid disbursements should rise at least as fast as investment - say about 15% next year, giving an assumed total disbursement requirements of around $600 million compared with an estimated $520 million this year and $560 million last year.

116. Although a sizeable project aid pipeline exists, new commitments in the past two years, including non-consortium commitments, have been below disbursements, so the pipeline is clearly diminishing. Also, it does not appear that existing commitments alone can meet the disbursement requirement for 1968/69, so a significant increase in project lending will be needed. The Indian Government is understood to be preparing an estimate of its new project aid requirements as a basis for consideration of foreign commitments to project assistance at the November meeting of the Indian Consortium. No advance estimate of the latter can be made at present, in the absence of information about the types of project for which finance is sought, and thus the likely speed and pattern of disbursements.

(iii) Summary

117. In summary, it is clear that if non-project aid commitments this year fall below $750 million, then the aid pipeline would be diminished with the serious risk that as a consequence the import decontrol policy may have to be reversed because of rising import license obligations and use without sufficient assurance about future exchange availabilities. The IBRD relief for $50 million of debt repayments, together with debt rescheduling or relief promised by other consortium countries, plus some commodity aid disbursements from commitments already made or in immediate prospect (as of end-September 1967) may perhaps just suffice to meet India's immediate cash needs this year. However, unless consortium members make commitments this year, beyond this year's actual disbursement requirements, in a total amount as previously indicated of about $750 million, the aid availabilities for next year are likely to remain too uncertain for present policy requirements, and the non-project aid problems of adequate commitments and adequate disbursements next year will be aggravated. Regarding project-tied aid, there is a need to increase the volume of commitments because existing commitments will not suffice to enable public investment to resume an upward trend next year.

STATISTICAL APPENDIX

TABLE I: National Income by Sector

(Rs. Billion; 1960/61 Prices)

Sector	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 (estimates)
Agriculture and allied sectors	68.9	69.0	67.6	69.7	74.6	63.9	65.3
Mining and manufacturing	26.0	27.2	28.3	30.1	31.9	33.4	(99.5
Commerce, transport and communications	23.4	24.2	25.1	26.4	28.9	29.1	
Other services	23.6	25.2	27.2	29.3	32.0	34.1	
Net domestic product at factor cost	141.9	145.6	148.2	155.5	167.4	160.5	164.8
Net national income	141.4	144.9	147.4	154.6	166.3	159.3	163.6a/
Population (million) b/	434.6	445.3	456.1	467.1	478.3	490.1	502.2
Per capita income (Rs.)b/	326	326	323	331	348	325	326

a/ Rs. 229 billion (estimated) at current prices.
b/ Estimated population at mid-point of fiscal year.

Source: Planning Commission, Draft Outline, Fourth Five-Year Plan and Annual Plan, 1967/68.

TABLE II: Production of Principal Crops

Commodity	1950/51	1960/61	1962/63	1964/65	1965/66	1966/67
			(million tons) a/			
Foodgrains	50.8	82.0	78.4	89.0	72.3	78.0 c/
Cereals	42.4	69.3	67.0	76.6	62.3	66.7
Rice	20.6	34.6	31.9	39.0	30.6	30.9
Wheat	6.5	11.0	10.8	12.3	10.7	12.2 c/
Coarse grains	15.3	23.7	24.3	25.3	21.0	23.6
Pulses	8.4	12.7	11.4	12.4	10.0	11.3
			(thousand tons) a/			
Oilseeds	5,158	6,990	7,121	8,415	6,155	6,936 c/
Groundnuts	3,481	4,812	4,821	5,888	4,022	5,000 c/
Castor	103	115	109	102	108	71
Sesamum	445	318	464	493	407	425
Rape and mustard	762	1,347	1,294	1,466	1,268	1,040
Linseed	367	398	433	466	350	400
Sugarcane b/	5,705	11,141	9,544	12,031	11,830	10,500
Cotton	518	953	956	1,022	847	899
Jute	596	744	981	1,084	807	954
Mesta	n.a.	203	305	285	224	n.a.
Tobacco	261	307	366	370	315	366
Chillies (dry)	351	419	420	469	381	n.a.
Tea	275	321	347	367	365	376
Coffee	25	59	51	65	63	70
Rubber	14	25	32	44	49	50
Coconuts (mn. nuts)	3,582	4,639	5,017	4,806	n.a.	n.a.

a/ Tons refers to metric tons.
b/ Yield expressed in terms of gur.
c/ Mission estimates. These are higher than the Government's preliminary estimates which assume a wheat crop of only 10.8 million tons and a groundnuts crop of only 4.5 million tons.

TABLE III: Foodgrain Availability and Prices

	1956 ...	1961	1962	1963	1964	1965	1966	1967	1968 (projected)
Gross production (million tons)	69.2	82.0	82.7	78.5	80.2	89.0	72.3	78 d/	95
Net production a/	60.5	71.8	72.4	68.6	70.2	77.9	63.3	66.6	83.1
Net imports	1.4	3.5	3.6	4.6	6.3	7.5	10.3	9.5	6.0
Change in official stock (increase -)	.6	.2	.4	0.0	1.2	-1.1	- .1	- .1	-2.0
Total availability b/	62.5	75.5	76.4	73.2	77.7	84.3	73.5	76.0	87.1
Population (millions)	398	443	454	464	476	487	499	511	523
Per capita grain availability (index)	100	109	107	100	104	110	94	95	105
Relative grain price c/	100	86	86	103	110	109	131	141 e/	(decline)
% change in foodgrain availability per capita		+ 9% f/	- 2%	- 7%	+ 4%	+ 6%	-15%	+ 1%	+10%
% change in relative grain price		-14% f/	.0	+20%	+ 7%	- 1%	+21%	+ 8%	(negative)

a/ Net of seed and wastage (12.5%).
b/ Economic Survey 1966/67, Table 1.5.
c/ The relative price is obtained by deflating the foodgrain price index by the index for manufactures. The price is that of the last week of March of the following year e.g. foodgrain availabilities in 1964 are related to prices in March 1965, etc.
d/ Official figure is 76 million, but the mission regards this as an underestimate.
e/ As of July 15, 1967.
f/ For 1961 the change is over 1956, otherwise over the preceding year.

Source: Economic Survey 1966/67, Table 1.5.

TABLE IV: High Yielding Variety Program

A. Year 1966/67

	Revised Target (000 acres)			Estimated Coverage (000 acres)			
	Kharif	Rabi	Total	Kharif	Rabi	Total	%
Paddy	1,540	1,230	2,770	1,258	960	2,218 1/	80
Wheat	-	1,590	1,590	-	1,350	1,350 1/	85
Maize	490	540	1,030	333	190	523	50
Jowar (Sorghum)	340	960	1,300	117	455	572	44
Bajra (Pearl Millet)	200	110	300	101	45	146	49
Total	2,650	4,430	6,990	1,809	3,000	4,809	69

B. Year 1967/68

	Target (000 acres)		
	Kharif	Rabi	Total
Paddy	4,136	2,022	6,158
Wheat	-	4,562	4,562
Maize	1,174	495	1,669
Jowar (Sorghum)	1,500	1,050	2,550
Bajra (Pearl Millet)	1,020 2/	100	1,120
Total	7,830	8,229	16,059

1/ Because open-pollinated varieties such as rice and wheat depend on individual farmers for reproduction and multiplication, the figures given involve a considerable amount of guesswork.

2/ This target seems too high given the levels of certified seed production of Jowar during 1966/67 estimated by NSC.

Source: Ministry of Food and Agriculture.

TABLE V: Fertilizer Distribution

	N	P_2O_5	K_2O	Total
	(000 tons nutrients)			
1965-66				
Production	233	117	-	350
Imports	323	21	94	438
Stock Increase (Decrease)	(27)	4	4	(19)
Distribution	583	134	90	807
1966-67 (est.)				
Production	308	132	-	440
Imports	617	141	120	878
Stock Increase (Decrease)	78	31	6	115
Distribution	847	242	114	1,203
1967-68 (proj.)				
Production	500	250	-	750
Imports	888	359	300	1,547 1/
Stock Increase (Decrease)	(38)	109	-	71
Distribution	1,350 2/	500	300	2,150

1/ Valued at US$280 million.
2/ Of this amount, 710,000 tons is estimated to have been available in time for the Kharif crop.

Source: Ministry of Finance.

TABLE VI: Tractors

	1965/66	1966/67	(Target) 1967/68
Crawler Tractors			
Foreign Exchange allocated for imports ($ million)	3.9	9.7	17.8
Wheel Tractors			
Production (000)	6.2	7.5	13.0
Imports (000)	1.9	6.5	10.0
	7.1	14.0	23.0
Foreign Exchange allocated for imports ($ million)	1.7	7.5	11.5
Power Tillers			
Imports (000)	0.9	1.1	1.4
Foreign Exchange allocated for imports ($ million)	1.0	1.2	1.4

Source: Ministry of Food and Agriculture.

TABLE VII: Minor Irrigation Development

	Status at End of Third Plan 1965/66	Estimated Construction during 1966/67	Target Construction for 1967/68
Nos. Wells (000)			
Boring of Dug Wells	135.0	70.0	90.0
Deepening of Dug Wells	70.0	50.0	55.0
Construction of Shallow Tubewells 1/ - Private	90.0	27.8	27.8
Construction of Deep Tubewells - State	11.9	0.9	1.0
Nos. Pumpsets (000)			
Electric	502.4	146.0	180.0
Diesel	535.2	70.0	85.0

1/ Including "filter points", a name for shallow tubewells sunk in sandy soils in Madras State.

Source: Ministry of Food and Agriculture.

TABLE VIII: Industrial Production
(Index numbers: 1956=100)

	Weight	1961	1962	1963	1964	1965	1966
Mining and quarrying	7.47	147	162	176	169	184	190
Food Manufacturing	13.99	129	127	123	136	144	148
Cigarettes	1.49	150	156	152	176	206	223
Cotton textiles	32.10	109	109	116	123	123	120
Woollen textiles	1.10	107	139	166	128	110	102
Synthetic fibres	2.94	145	154	170	211	218	213
Jute manufactures	5.62	90	110	117	121	126	105
Footwear (leather)	0.28	166	180	214	212	246	266
Wood and cork, except furniture	0.24	150	169	200	203	236	227
Paper and paper products	1.39	182	191	227	238	255	282
Leather and fur products	0.18	116	125	149	138	140	136
Rubber products	3.04	157	170	187	198	218	218
Chemicals and chemical products	3.56	171	184	204	224	235	245
Petroleum products	3.79	157	169	197	217	231	286
Non-metallic mineral products	2.47	181	220	205	216	233	230
Basic metals	9.25	211	255	293	290	299	316
Metal products	0.99	152	179	201	226	240	221
Machinery, except electrical machinery	1.10	269	293	367	411	490	531
Electrical machinery	2.41	183	211	239	282	313	342
Transport equipment	2.86	131	151	151	193	208	188
Electricity	3.68	199	223	298	297	327	355
All Industries	100	141	153	166	177	187	192
Selected Products							
Basic industrial chemicals	0.97	228	257	298	353	394	414
Fertilizers	0.60	178	196	228	251	258	288
Cement	1.24	165	172	187	194	211	221
Railway wagons	1.04	66	106	120	151	157	104
Automobiles	1.28	169	180	163	209	226	224

% Changes Over Preceding Year

All manufactured goods	88.80	+ 7.9	+ 8.6	+ 7.7	+ 7.0	+ 5.0	+2.1
Consumer goods	51.90	+ 6.9	+ 1.3	+ 3.4	+ 8.3	+ 2.5	-0.7
Intermediate goods	17.82	+ 5.1	+10.8	+11.9	+ 7.0	+ 6.5	+4.6
Capital goods	19.08	+12.9	+18.8	+11.0	+ 6.3	+ 6.6	+3.5
of which							
a) non-electrical machinery (1.10)		+13.5	+ 9.1	+25.2	+12.0	+19.1	+8.4
b) electrical machinery (2.41)		+ 4.2	+15.2	+13.3	+18.1	+10.9	+8.5
c) transport equipment (2.86)		+ 9.5	+15.7	+ 0.1	+27.3	+ 7.9	-9.3
d) basic metals (9.25)		+15.1	+21.0	+14.7	- 0.8	+ 3.0	+5.7

Sources: Economic Survey 1966/67, Tables 1.8, 1.9.
RBI Bulletins.

TABLE IX: Wholesale Prices
(Index numbers: 1952/53=100)a/

	Weight	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67
Cereals	192	100	102	103	122	140	156	194
Pulses	43	92	91	99	133	152	155	234
Fruit and vegetables	23	109	131	133	166	156	169	204
Milk and ghee	84	118	119	126	132	150	163	199
Edible oils	47	164	150	140	163	185	266	314
Fish, eggs and meat	17	120	143	138	153	176	206	219
Sugar and gur	48	117	122	148	168	155	152	239
Other foods	50	169	158	170	176	172	214	223
Total Food	504	118	118	124	141	154	175	218
Liquor and tobacco	21	115	99	117	119	138	128	128
Industrial raw materials	155	158	135	135	146	163	210	236
Manufactures	290	129	126	130	133	141	157	168
Fuel, power, light, etc.	30	121	122	138	140	148	157	173
All Commodities	1,000	128	123	127	139	151	174	203

a/ Index relates to last week of year indicated.

Source: Office of the Economic Adviser to the Government of India.

TABLE X: Wholesale Prices of Selected Commodities
(Index number: 1952/53=100)

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67
Rice	108	105	111	125	134	141	173
Wheat	90	91	90	99	130	138	158
Jowar	122	112	130	116	189	197	199
Gram	87	83	89	100	158	151	198
Milk	118	117	123	133	151	167	186
Gur	136	116	153	218	210	162	211
Tea	205	193	175	196	187	194	197
Spices	128	140	156	158	164	181	237
Cotton (raw)	112	109	113	119	126	129	139
Jute (raw)	210	178	147	148	164	219	266
Groundnuts	146	155	140	144	186	223	288
Cotton manufacturers	128	128	131	136	137	142	151
Jute manufacturers	131	122	111	100	114	146	152
Machinery	116	120	124	131	135	144	158

Source: Office of the Economic Adviser to the Government of India.

TABLE XI: Consolidated Budgets of the Center and State Governments*
(Rs. crores)

	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 (R.E.)	1967/68 (B.E.)
Total expenditure	2,935	3,484	4,308	4,773	5,545	6,358	6,482
Nondevelopmental a/	1,063	1,317	1,735	1,765	2,137	2,769	2,693
Developmental, of which:	1,872	2,167	2,573	3,008	3,408	3,589	3,789
Education, science, health, and medicine b/	348	435	487	561			
Current revenue	2,035	2,433	3,050	3,327	3,749	4,141	4,714
Tax revenue, of which:	1,543	1,865	2,325	2,599	2,918	3,241	3,600
Income and corporate taxes	322	357	534	581	577	625	640
Sales taxes and excises	677	817	1,007	1,132	1,279	1,480	1,735
Customs duties	212	246	335	397	538	596	643
Land revenue	100	124	130	128			
Nontax revenue c/	492	568	725	728	831	900	1,114
Deficit	900	1,051	1,258	1,446	1,796	2,217	1,768
Financing:							
Capital receipts (net)	622	799	971	1,145	1,345	1,868	1,599
Internal	320	415	469	556	683	969	597
Market loans from nonbanking sources (net)	74	120	116	143	127	132	117
Small savings, prize bonds, premium price bonds and gold bonds (net)	91	84	138	129	138	128	128
Provident fund and compulsory deposits/income tax annuity deposits (net)	53	57	101	114	119	101	120
Miscellaneous capital receipts (net) d/	102	154	114	170	299	608 g/	232
External	302	384	502	589	662	899	1,002
Loans (net) excluding PL 480	196	240	308	348	402	474	670
Grants (excluding PL 480)	20	12	7	9	8 h/	97 h/	41 h/
PL 480 assistance e/	86	132	187	232	252	328	291
Overall deficit financed by banking system f/	278	252	287	301	451	313 i/	169

a/ Excludes transfers to Special Development Fund and other funds.
b/ Includes Plan expenditure of Railways and nondepartmental undertakings out of their own resources as well as loans by the Union and State governments to local bodies, nondepartmental commercial undertakings (including Electricity Boards) and other parties.
c/ Includes contribution of Railways, Posts and Telegraphs and other nondepartmental commercial undertakings for the Plan.
d/ Includes sale of Treasury bills to parties other than the banking system.
e/ Includes loans and grants from counterpart funds and net increase in the US holdings of special securities. Excludes transfers of PL 480 funds from the State Bank of India which are taken as internal receipts under miscellaneous capital receipts.
f/ In Indian budgetary practice, a surplus or deficit is measured by the sum of changes in cash balances and sales of Treasury bills to the Reserve Bank, all borrowing from commercial banks and medium-term and long-term borrowing from the Reserve Bank being counted as receipts. For the purpose of this presentation, the overall deficit in 1967/68 is taken to be the budget estimate of the deficit in the usual budgetary sense plus an estimate of the probable increase in commercial bank claims on the Government, it being assumed that the Reserve Bank would not have to take up any portion of medium-term and long-term loans. For earlier years, the overall deficit is measured by the actual increase in the net claims of the banking system on the Government in all forms.
g/ Includes Rs.349 crores on account of securities issued to IMF, IBRD and IDA following devaluation.
h/ Includes special food gifts from Canada, USSR, and Australia.
i/ Based on the latest estimate of the overall deficit (as defined by the Government) of Rs.235 crores, compared with the earlier estimate of Rs.271 crores. Since no explanation is as yet available for the lower figure, the revenue and expenditure data relating to the earlier estimate are given; there is therefore a discrepancy of Rs.36 crores for 1966/67 between the current deficit and total financing.
* Includes Union Territories.

TABLE XII: Current Budget of Central Government

(Rs. Crores)

	1955/56	1960/61	1962/63	1964/65	1965/66	1966/67 (R.E.)	1967/68 (B.E.)
Revenue, total	481	877	1,427	2,081	2,321	2,457	2,671
Tax revenue, subtotal	485	909	1,285	1,821	2,061	2,302	2,463
Share of States	(74)	(179)	(224)	(258)	(276)	(373)	(370)
Tax revenue retained by Centre	411	730	1,061	1,563	1,785	1,929	2,093d/
Non-tax revenue	70	147	366	518	536	528	578
Expenditure, total	441	826	1,314	1,807	2,001	2,282	2,438
Defence	172	248	425	693	762	827	845
Debt service a/	43	77	245	316	371	463	510
Grants in aid to States	36b/	49	198c/	273	329	408	456
Civil administration	34	59	75	82	95	123	124
Social and development services	82	236	186	200	215	236	291
Miscellaneous	74	157	185	243	229	225	212
Net surplus	40	51	113	274	320	175	233

a/ Whereas before 1962/63 debt service of the Central Government was recorded on a net basis, the disbursements and receipts on this account are now shown separately. This accounts for the rise in the figures from 1962/63 onwards. This change renders the figures for this and subsequent years non-comparable with previous years.

b/ Part of grants to States included in items "Civil Administration", "Social and Development Services" and "Miscellaneous".

c/ Includes non-statutory grants from 1961/62 onwards.

d/ Includes the effect of tax proposals; modifications in tax proposals subsequent to the budget have not been taken into account.

Source: Reserve Bank of India Report on Currency and Finance 1965/66.
Reserve Bank of India Bulletin - March, 1967.

TABLE XIII: Capital Budget of Central Government
(Rs. crores)

	1955/ 1956	1960/ 1961	1962/ 1963	1964/ 1965	1965/ 1966	1966/ 1967 (R.E.) c/	1967/ 1968 (B.E.)
Receipts, total a/	183	905	831	1,155	1,096	1,927	1,420
Disbursements, total	373	778	1,081	1,586	1,613	2,468	1,658
Developmental, subtotal	120	270	486	616	542	495	507
Railways	68	89	215	275	245	175	162
Post and telegraph	9	11	21	31	31	28	29
Civil works	25	39	48	80	72	59	50
Industrial development	11	91	171	195	150	181	201
Other	7	27	31	35	44	52	65
Non-developmental, subtotal	-9	136	110	308	191	888	425
Defence	18	33	49	113	122	115	124
State trading	-30	34	-22	41	-84	211	138
Other	3	69	83	154	153	562	163
Grants to states	16	13	16	23	42	44	27
Loans to states (net)	222	244	366	463	564	658	407
Other b/	24	128	103	176	274	383	292
Surplus (+) or deficit (-)	-190	+127	-250	-431	-517	-541	-238

a/ Some receipts have been netted out against disbursements; excludes receipts from Treasury Bills.

b/ Mainly various loans and advances.

c/ Much of the increase in receipts and disbursements in 1966/67 is due to two bookkeeping items: increased deposits in the Special Development Fund, which occur both as receipts and disbursements, and increased subscriptions and securities issued to the IMF, IBRD, etc. following devaluation.

Source: Reserve Bank of India Report on Currency and Finance 1965/66, Budget of the Central Government 1967/68, and Explanatory Memorandum on the Budget 1967/68.

TABLE XIV: Credit Extension to Central and State Governments
(Rs. crores)

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67 d/
1. Increase in RBI's rupee securities (including Treasury Bills)	124	105	237	209	161	204	363
2. Loans and advances to State Government by RBI	17	42	-26	16	3	137	-140
3. Decline (+) in Central Government deposits with RBI	-13	5	15	-28	-7	40	-66
4. Decline (+) in State Government deposits with RBI	14	13	-16	15	-9	-1	-13
5. One rupee notes a/	5	5	5	5	5	-	-
Total deficit financing, according to GOI definition b/	147	170	215	217	156	380	144
6. Commercial Banks investment in Government securities (inc. Treas. Bills)	-154	43	-5	47	79	96	78
7. Increase (-) or decrease (+) of PL 480/665 deposits with State Bank c/	+121	+54	+67	+39	+62	+21	-
Total deficit financing, according to IBRD definition	114	267	277	303	296	497	222

a/ Notes printed by Government and sold to RBI.

b/ The IBRD (such as used in the IBRD 1960 report) and the Indian definitions differ with respect to the treatment of credit extended to the Government by the commercial banking system.

c/ These figures reflect, among other things, changes in PL 480 arrangements. PL 480 counterpart funds were previously deposited with the State Bank, which invested them mainly in Government securities. Since May 12, 1960, they are deposited directly with the RBI which invests them in non-negotiable Special Securities. The gradual transfer of past accumulations of PL 480 funds from the SBI to RBI leads to depletion of the State Bank's portfolio of Government securities. During 1964/65 and 1965/66 other U.S. funds were also transferred from the State Bank to the Reserve Bank.

d/ No adjustments have been made for effects of devaluation. This explains most of the discrepancy between the figure of Rs.222 crores for total deficit financing (IBRD definition) shown here and the figure of Rs.320 crores for credit to Government in Table XV.

Source: Reserve Bank of India

TABLE XV: Causes of Variations in Money Supply a/

(Rs. Crores: Expansionary effect +, Contractionary effect -)

	1951/ 1956	1956/ 1961	1961/ 1966	1962/ 1963	1963/ 1964	1964/ 1965	1965/ 1966	1966/ 1967
Total increase in money supply with public	+198	+706	+1660	+264	+442	+328	+449	+424
Rates of increase				8.7%	13.3%	8.7%	11.1%	9.6%
Credit extension to Government b/	+245	+1211	+1547	+277	+281	+287	+499	+320 e/
Rates of increase				10.6%	9.7%	9.0%	14.4%	10.8%
Credit extension to private sector c/	+240	+674	+1149	+217	+260	+247	+288	+457
Rates of increase				13.2%	8.7%	12.3%	12.8%	18.0%
Effect of changes in time liabilities of banks b/	-136	-462	-699	-112	-82	-194	-208	-267
Effects of external transactions d/	-96	-674	-122	-27	+35	-28	-35	-22 e/
Other causes (residual item)	-55	-43	-215	-91	-52	+16	-95	-64

a/ Variations are as between the last Fridays of each fiscal year.

b/ Adjusted for the net changes in PL 480/665 deposits with the State Bank of India and also for the changes in other U.S. funds transferred from the State Bank to the Reserve Bank during 1964/65 and 1965/66; also inclusive of Government's currency liability to the public arising from issue of one rupee notes and small change.

c/ Excludes Reserve Bank credit to private sector.

d/ Equal to changes in (net) foreign assets of Reserve Bank.

e/ Adjusted for revaluation of Reserve Bank assets following devaluation.

Source: Reserve Bank of India and information received by Mission.

TABLE XVI: Balance of Payments

($ million)

	1950/1	1960/1	1962/3	1964/5	1965/6a/	1966/7b/
1. Imports (c.i.f.)	-1,366	-2,271	-2,254	-2,862	-2,803	-2,892
a. PL 480	nil	389	255	482	526	555
b. Others	1,366	1,882	1,999	2.380	2,277	2,337
2. Exports (f.o.b.)	1,358	1,324	1,433	1,686	1,642	1,558
3. Trade Balance (2-1)	- 8	-947	-821	-1,176	-1,161	-1,334
4. Other Transactions	48	- 52	-152	- 529	- 267	- 434
a. Interest payments on debt	-	- 56	- 89	- 108	- 120	- 139
b. Principal payments on debt	-7	- 71	- 99	- 140	- 150	- 181
c. IMF repayments	-	- 22	-	- 100	- 75	- 57
d. Other invisibles (net)	85	63	- 25	- 14	107c/	(
e. Other capital movements (net)	-17	47	21	- 17	- 129	(-57
f. Errors and omissions	-13	- 13	- 10	- 150	100	(
5. Overall Deficit: financed by:	40	-999	-973	-1,705	-1,428	-1,768
6. External Assistance	20	875	968	1,553	1,529	1,777
a. Loans	16	416	641	927	817	(
b. Grants	4	70	47	44	49	(1,035
c. PL 480	-	389	255	482	526	555
d. IMF drawings	-	-	25	100	137	187
7. Changes in external assets (- increase)	-60	124	5	152	-101	- 9

a/ Preliminary.
b/ Estimate.
c/ Includes remittances under National Defense Remittance Scheme.

Source: Reserve Bank of India and Ministry of Finance.

Revised (1964/65 column only)
November 29, 1967

TABLE XVII: Imports

($ million) a/

		1964/65	1965/66	1966/67
1.	Cereals	592.7	649.4	812.6
2.	Mineral fuels	144.3	143.6	87.5
3.	Raw cotton	122.0	97.1	79.8
4.	Raw jute	15.4	11.8	27.4
5.	Chemicals	71.4	75.2	72.4
6.	Fertilizers	60.8	81.7	126.7
7.	Paper and paper products	27.6	28.1	28.7
8.	Iron and steel	220.5	205.4	129.7
9.	Non-ferrous metals	122.9	144.2	113.9
10.	Metal manufactures	35.7	38.1	22.9
11.	Machinery	849.3	881.2	682.4
12.	Transport equipment	154.4	146.9	79.7
13.	Other	417.1	426.0	446.1
	TOTAL	2,834.1	2,928.7	2,709.8

a/ These figures are collected on a customs basis and are therefore not comparable with the payments data. A breakdown on the basis of payments for 1966/67 was not available at the time of preparation of the report.

Source: Economic Survey 1966/67 and Reserve Bank of India.

TABLE XVIII: Exports

Third Plan Actuals and Fourth Plan Targets

(US $ Million)

	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1970/71 Plan Target	1970/71 Mission Estimates	Increase 1965/66 - 1970/71 Plan Target	Increase 1965/66 - 1970/71 Mission Estimates	Rate of Growth 1965/66 - 1970/71 Plan Target %	Rate of Growth 1965/66 - 1970/71 Mission Estimates	Share in Total Exports 1965/66 %
Tea	257	271	259	262	241	215	344 f/	260	103	19	7.4	1.5	14.2
Jute goods	306	314	324	353	384	335	443	400	59	16	3.0	0.8	22.6
Vegetable oils	12	28	42	15	9	3	52	26	43	17	43.0	23.6	0.5
Pulses	n.a.	n.a.	n.a.	n.a.	3)	)	22		19		55.0		0.2
Other fruits and vegetables	13	13	15	14	13)	18)	25		12		14.0		0.7
Raw cotton	30	26	26	22	20	23	30		10		8.5		1.2
Coffee	19	16	17	28	27	21	40		13		8.2		1.6
Oil cakes	36	65	74	84	73	67	113	113	40	40	9.2	9.2	4.3
Sugar	30	36	54	45	24	22	40		16		10.8		1.4
Unmanufactured tobacco	30	38	44	51	41	29	69	69	28	28	11.0	11.0	2.4
Pepper	17	14	12	14	23	17	24		-		-		1.4
Other spices	19	15	10	12	25	22	37		12		8.2		1.5
Cashew kernels	38	41	45	61	58	61	75	75	17	17	5.3	5.3	3.4
Marine products	8	8	12	14	14	23	50	50	36	36	29.0	29.0	0.8
Iron ore	74	74	76	78	88	94	161	145	73	57	12.8	10.5	5.2
Cotton fabrics	101	101	114	121	116	86	142		26		4.1		6.8
Art silk	n.a.	n.a.	n.a.	n.a.	10	4	21	10	11	-	16.0	-	0.6
Clothing	2	2	10	9	13 a/	n.a.	40		27		25.0		0.8
Footwear	5	6	8	9	11	12	29		18		21.0		0.6
Other leather	53	48	55	57	60	83	79		19		5.7		3.5
Engineering	14	17	31	30	42	31 c/	93		51		17.6		2.5
Iron and steel e/	20	5	8	22	26	34							1.5
Chemicals	8	8	8	14	25 b/	15 d/	46		21		13.0		1.5
All other	373	353	422	399	354	343	558		179		8.5		20.8
Total g/	1427	1499	1665	1714	1700	1558	2533		833		8.3		100.0

Note: The columns labeled mission estimates under the projections for 1970/71 do not represent forecasts of what is likely to happen but rather what could reasonably be achieved by the early 1970's, taking account of market prospects and possibilities for exportable supplies.

a/ Somewhat wider coverage than previous years. Export figure corresponding to previous coverage is 412 million.
b/ Wider coverage than previous years. Export figure corresponding to previous coverage is 319 million.
c/ Narrower coverage than previous year. Corresponding figure for previous year was 435 million.
d/ Presumably same coverage as in years 1961/62 to 1964/65.
e/ Including ferro manganese.
f/ Based on a Fourth Plan Volume target of 300,000 tons. This target has now been revised downward by the Indian Government to 2[illegible],000. A corresponding adjustment in the value target would put it at about $275 million.
g/ Figures are on a customs basis and thus differ slightly from those in Table XII which are on the basis of export receipts.

TABLE XIX: Gold and Foreign Exchange Reserves

(in $ million)

Last Friday		Reserve Bank of India a/	Government	Total Official	Change in official reserves over previous period	Commercial Banks
1951		1,887	56	1,943	-	30
1955		1,791	76	1,866	- 77	34
1956		1,360	75	1,435	-431	42
1960		566	104	670	-765	42
1961		763	102	665	- 5	41
1962		450	62	512	-153	50
1963		469	138	607	+ 95	47
1964	December	447	51	498	-109	63
1965	March	461	63	524	+ 26	51
	June	443	76	519	- 5	48
	September	458	48	506	- 13	42
	December	460	139	599	+ 93	45
1966	March	474	152	626	+ 27	55
	June	584	191	775	+149	65
	September	507	149	656	-119	70
	December	515	93	608	- 48	99
1967	March	556	82	638	+ 30	n.a.
	June	520	95	615	- 23	n.a.

a/ Includes $247 million in gold through 1964, $270 million in January 1965, $281 million thereafter through January 1966, and $243 million since then.

Source: International Financial Statistics.

TABLE XX: Foreign Exchange Licensing

($ Million)a/

	1964/65	1965/66	1966/67	1967/68 (projected)
1. Commercial and industrial including iron and steel	958	648	1,435	1,337
2. Petrol, oil and lubricants	199	171	161	164
3. Agricultural inputs	109	175	332	401
4. Other infrastructure	647	378	418	404
TOTAL	1,913	1,369	2,346	2,306

a/ Licenses issued by the Indian government to importers. The terms and conditions of licenses vary according to the purpose and nature of the import. All imports other than cereals and imports obtained under project aid agreements are covered by the licensing.

Source: Ministry of Finance.