No. E 37/49
CONFIDENTIAL

This study is restricted to those members of the staff to whose work it directly relates.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INDIA'S CREDITWORTHINESS

Annex III

April 25, 1949

Department: Economic
Prepared by: Antonin Basch

TABLE OF CONTENTS.

I.

SUMMARY AND CONCLUSIONS - INDIA AS A CREDIT RISK

In considering a loan to India, one must weigh carefully the present unsettled conditions in its economy as well as the political turmoil in neighboring countries. Yet a certain positive approach is indicated:

1. The service of the domestic debt accounts for about 12-1/2% of the ordinary expenditure. Except for the dollar obligation to the International Monetary Fund, India has practically no foreign debt. On the other hand, she owns substantial sterling balances of nearly £730 million ($2,900 million).

2. When the present extraordinary expenditures on national defense, on food subsidies and on refugees decline, India should be able, not only to reduce its high rate of taxation, but even to provide a surplus for development financing. Real economy in public finance is of the utmost importance.

3. If present anti-inflationary policy continues and no unexpected difficulties interfere, a further lessening of inflationary pressure may be expected since no new purchasing power is being generated by monetary authorities. With increasing domestic production and with rising imports, even of consumer goods, from the soft currency area, the position should become still easier.

4. The restoration of confidence is a prerequisite to an improvement of the capital market. Only then will capital be available for the investment needed to increase production in India. The Government is alive to this and is taking steps to create a more favorable business climate. An increase of available savings should supplement public expenditures on development projects.

5. It is expected that the over-all food deficit would be reduced and that the country may be able to obtain larger food imports from prewar

sources or other parts of the soft currency area. Thus food imports from the hard currency area could be reduced and even, in the not distant future, eliminated, except in times of failure of the monsoon.

6. Such a change in the food import and production situation would alone substantially lessen the gravity of the dollar problem. However, the country must continue to purchase more in soft currency areas and at the same time sell more in the hard currency area. To do the latter, the problem of competitive prices must be solved in order to strengthen and restore the position of Indian goods in foreign markets.

7. The country's dependence on economic recovery in the U. K. will continue. In assessing India's creditworthiness, account must be taken of its sterling balances, and especially of the prospects of the U. K. to allow India to draw on these balances for purchases within the sterling area and to provide her with a modest yearly allocation in dollars. With the continuous recovery of the U. K. economy, India should be able to obtain in soft currency areas capital goods and raw materials which are now available, for the most part, only in the U. S. or other parts of the dollar area. And as the position of the pound improves, India may use sterling in purchases from an increasing list of countries. Already through the mechanism of the Sterling Area, India is able to pay in pounds for imports from Sweden, Switzerland, Brazil and Peru.

8. Taking into account all these factors and assuming :-

(a) That certain conditions concerning public finance, inflation, the capital market, export commodity price adjustments, and an overall increase of production will be fulfilled;

(b) That a satisfactory over-all trade arrangement will be reached with Pakistan;

(c) That, in the absence of convertibility of currencies, foreign trade develops along the lines of the prewar pattern, and India again achieves a surplus with the hard currency area;

(d) That the development program will be pursued realistically and with first things first, and

(e) That, in addition, a modest annual release of convertible sterling will be available from the U. K.

It seems reasonable to expect that India should be able to provide a yearly loan service of about $15 to $25 million.[1/] In view of the present difficult position a full loan service should begin only after a period of five years.

Should some of the conditions mentioned above not materialize, and especially should India's food position not substantially improve, India's ability to provide a yearly service for dollar loans should not be less than $10 to $15 million, or about 3 - 5% of her present exports to the United States.

1/ India's prewar export surplus with the U.S. was $140 million in 1928 and $28 million in 1935. The yearly service of India's prewar sterling debt, which has been repaid, amounted to about £20 million.

In that case it might be necessary for India to further curtail her hard currency purchases, which could be done without serious effect on her economy.

9. The effect of a Bank loan would be very great, economically as well as politically. It would provide a fillip to confidence in the present Government, and also restore confidence on the capital market. It would work like an initial spark to the Indian economy, helping to release for investment some of the hoarded domestic capital and encouraging a flow of private foreign investment for which many opportunities exist in India and to which the Indian Government is now well disposed.

Introduction

India has been through serious economic difficulties in the last year. Members of the Government spoke openly of economic crisis in the recent budget discussions of the assembly. The reasons for this situation are manifold. The country has been faced with conversion of a war-worn economy to peace-time production; with a host of problems thrown up by Partition; and with all the economic and social implications of newly achieved independence.

The consequences are reflected over most of the economic and financial life of the country. The most critical economic bottlenecks have been shortages of food, aggravated by a series of poor harvests, and lack of transportation. Transport difficulties were so serious in 1948 as to prevent important commodity exports and to curb domestic production through inability to move goods within the country. Inflationary pressures inherited from the war have, until only recently, pushed prices and wages steadily upwards. Friction with Pakistan and open fighting in Kashmir and Hyderabad have necessitated a costly military establishment. An over-all balanced budget has been impossible in spite of rather high direct taxation.

Under the new political regime, various Government programs have disturbed business confidence and shyness of capital has made flotation of public loans, and even new issues of common or preferred stock, extremely difficult.

Independence released a great many forces and raised hopes that, in spite of the difficult over-all position, the standard of living of the broad masses would be improved within a short period. The people expected independence to bring early fulfillment of the many promises made previously by the

Congress Party. In the flush of new hopes, ambitious plans for development piled up throughout the country. Government Departments worked feverishly on schemes for quick economic advancement while Provinces and States were in open competition for priority to proceed with their own projects.

These development ambitions, together with pent-up demand from the war and the need to replenish stocks and replace worn-out machinery created a huge demand for imports. On the basis of large accumulations of sterling and a belief, during the early months of independence, in the convertibility of the pound, the country pursued a liberal import policy. Large sums of dollars and sterling were spent, often on non-essentials.

Changed Financial and Economic Policy in Summer of 1948.

By the summer of 1948, however, it became very clear that India, like most other countries, was faced with a dollar shortage. Since that time the Government has become increasingly aware of the serious economic and financial situation and of the necessity for measures to cope with it. The Government has embarked upon a comprehensive anti-inflationary policy affecting all sectors of the national economy. Import, export and foreign exchange policies have been revised. Reduction of various expenditures, including some for development projects, is in process to improve the budget situation. Measures are being taken to check inflation and labor unrest. Recent statements from high Government officials have aimed at reassuring the business community and alleviating the shyness for new investments which is one of the country's major economic problems. Efforts have been intensified to raise the level of food production and increase mineral and industrial output, and to improve internal transport.

The Government is curbing dollar imports and encouraging dollar exports. It is also attempting to hold the price line with the help of price control and rationing of grain and cloth, and even to reduce food prices as a means to check wage increases and at the same time maintain labor peace.

It has now been realized - although the process was not without difficulties - that in view of the dollar and budget position and the shyness of capital, ambitious schemes for speedy development must be tailored to realistic possibilities; that various projects must be postponed; and that others must be spaced over longer periods. The alternative of an excessive rate of development, financed from inflationary sources and without adequate provision for foreign exchange requirements, would endanger the whole structure of India's economy.

A strong and determined policy is necessary to coordinate the activities of Government Agencies, both at the Centre and in the Provinces; to reduce unproductive public expenditures; to expand agricultural and industrial output; to relieve the shortage of dollars and to reach a satisfactory long-range economic settlement with Pakistan.

I. REHABILITATION AND DEVELOPMENT OF INDIAN ECONOMY

1. Rehabilitation of Railways and of Industrial Equipment

At present India is faced with serious bottlenecks, especially in transportation and food. Railways and industrial equipment are worn out and run down as a result of the war. The condition of transport has hampered the flow of goods and slowed production and exports. Railway rehabilitation is therefore high on the list of India's requirements.1/

During the war machinery in industry was badly worn and replacement or renewal was impossible. Since 1947 intensive efforts have been made to replace the worn-out equipment and to modernize India's industrial plants. (The total value of machinery imported from April 1947 to the end of 1948 is about $310 million)

2. The Food Bottleneck

The food bottleneck is reflected in substantially increased imports of food which reached 2.8 million tons in 1947-48 (compared to prewar imports of around 1½ million tons) and for which the 1949 target envisages 3.8 million tons. The reasons for the present food situation are manifold:

(a) A series of poor monsoons in succession and other adverse weather factors have seriously reduced domestic production since 1945-46.

(b) Burma has been unable to resume rice exports at anything approaching prewar levels.

(c) The separation of major food surplus areas from the Dominion of India by the creation of Pakistan.

1/ For details see the Report by the Railways' Consultant.

(d) Population increase.

(e) The improvement in farm income over the past few years has, as one of its consequences, increased food consumption in the rural areas and lowered sales to the urban areas.

(f) Finally, the policy of the new Government to provide food even on a limited scale, for the whole population of India; at the same time, the Government is reluctant to enforce compulsory food procurement.

Concern over India's ability to keep abreast of food requirements of its increasing population is probably greater now than at any time since the last quarter of the 19th century. The Government is approaching the problem on a national scale with a threefold objective:

(a) to cover existing deficits at current nutritional levels;

(b) to provide for the increase in requirements expected from growth in population; and

(c) to improve the general standard of food consumption.

A statement of the Ministry of Agriculture on March 13, 1949 assumes the total population of India at 395 million by 1960. Compared to total food grain production in 1947-48, i.e. 47.7 million tons, the deficit to be made up between 1948-60 would be 9.5 million tons. (It should be noted, however, that there is a general consensus that the official food production statistics underestimate the actual production by about 15%).

In its statement the Ministry refers to the various multi-purpose river valley projects; a net increase in food production as a result of these schemes would be of 3 million tons by 1960. The program of Land Reclamation

and Tubewell Construction is expected to add another 2.5 million tons. The Ministry has under consideration, however, the intensification of the "grow-more-food" program and certain other measures from which it is expected that the over-all deficit in 1961 will be completely overcome well in advance of 1960.

It seems to be of the highest importance to gain maximum benefit from "normal crops". Since yields in India are among the lowest in the world the potentialities of increased efficiency in agriculture are great. Continuous efforts to increase yields and improve storage facilities (the annual waste of stored grain is estimated at well over one million tons) will be necessary, but if they are made there may be reasonable confidence that the gap in food requirements will be filled except in times of failure of the monsoon.

3. Industrialization

In addition to the rehabilitation of transportation and industrial equipment, and the restoration of the prewar situation in food supply, it must be expected that India will continue its prewar trend in developing and enlarging industries based on domestic raw materials. A wide field remains open for industrialization. Expansion of industrial and mining production is necessary to mitigate the population pressure on land and also to increase the national income.[1/] During the war India started production of various metallurgic goods, machine tools, aluminum, ferro-alloys, various chemicals and others. In the last two years new industries were built or the existing units were

1/ In the absence of official figures on the national income of India, the Ministry of Finance estimates the national income for 1948 at around Rs 50,000 million, which would be equal to about Rs 155 per head compared to prewar estimates of Rs 62-64 for 1931-32. Any increase of real income per capita has been slight.

expanded in the following fields: electric motors, diesel engines, electric lamps, motor car batteries, paper, caustic soda, plywood, industrial alcohol. The number of workers employed in factories has reached 3 million.

Construction of new plants and expansion of those existing continues: For example, the Government's great ammonium sulphate plant at Sindri, with a capacity of 350 thousand tons, which is expected to start production late in 1950. Cement production is being substantially expanded. A new soda ash factory and a caustic soda factory are being erected. Three rayon factories are being built. Railway coach production has increased. Expansion of aluminium production is being prepared.

4. Government's Projects.

Although India does not have an over-all development plan, the various industrial as well as irrigation and power projects which the Central and Provincial Governments contemplate at present would require an investment of around Rs 10 billion ($3 billion) over a period of 5 to 7 years (or about 3 to 4% of national income). Roughly, 20% would be needed in foreign exchange and a substantial part of it in dollars.

The major government industrial schemes include: two new steel mills, each with a capacity of 500,000 tons of steel; a factory for the production of heavy electro-technical machinery; a further expansion of cement industry; a machine tool factory; a locomotive factory; synthetic oil production and an expansion of Indian shipping. Since requirements of coal will automatically rise with the increasing over-all industrial production an increase of coal production by 5 million tons to 35 million tons is expected within the next five years. Some of the multi-purpose government projects (irrigation, flood

control and hydropower) would greatly increase the generation of electric power which is in short supply in various parts of the country, and which in turn will help in establishing new industries.

The execution of the various public and private projects presupposes that the present transportation bottleneck is solved and the increased transportation need satisfied, and, at the same time, that enough food will be provided for the whole population whose income may be expected to be slowly but constantly rising.

5. Coordination of Planning.

The activity of planning of new industries and of development as a whole has been so feverish in the last years that the necessity for coordination and a system of priorities has become evident. Various Departments of the Central Government have prepared plans of their own which at times are conflicting and each Province and State has tried to establish industries in its own territory without considering the over-all situation in the country.

In order to coordinate planning of new production and transportation, an Economic Committee of the Cabinet was organized and a Secretariat of this Committee was established on February 15, 1949. With the aid of this committee, future development, both in the Government and private sectors of the country's economy will be controlled and coordinated by the Central Government. It will allot priorities to development schemes both of the Centre and of the Provinces. Further development of industries in private sector will become subject to Central licensing. Thus, not only will uncoordinated private development not be possible, but through controls which are already in existence, e.g., the control of capital issues, the control of essential raw materials such as

cement, iron and steel, etc., and consequently foreign exchange control,[1/] it is possible to regulate the pace of implementation of new projects.

Further, it is impossible for Provincial Governments to embark on any large scale development plans without permission of the Central Government, since most of them have not the financial resources available and have already borrowed from the Centre. Under the Constitution, they cannot in such circumstances, have resort to the capital market without the permission of the Government of India.

There is in existence, therefore, administrative machinery which can and does coordinate the development plans of the country as a whole. This administrative machinery implements its decision through the statutory powers which the officials of the various Ministries exercise through control orders.

It can be said that, for all practical purposes, India is a controlled economy. What is needed is real coordination of these various controls. The new machinery should enable the Government to make sure that the nation's limited resources are used strategically, first things coming first.

6. Obstacles to Rapid Development.

There is no doubt as to the need and basic feasibility of the various development projects in India. However, there are three major obstacles to a rapid development:

(a) Shortage of skilled labor and managerial personnel. The

1/ The Government also controls the allocation of railway transportation; 90% of the available space is reserved for priority goods: food, cloth, coal, steel and cement.

Government is well aware of this factor and is trying to overcome the difficulties by extensive training of skilled labor, by its friendly attitude toward the work of foreign experts in India, and by trying to obtain technical assistance from abroad.

(b) Insufficient annual accumulation of domestic savings. (A discussion of this point is found in Chapter II).

(c) Dollar shortage, which is discussed in Chapter III.

II. THE PRESENT OVER-ALL FINANCIAL AND ECONOMIC SITUATION IN INDIA

1. Public Finance

(a) 1948-49 Budget. The revised estimate for the 1948-49 budget (April 1, 1948 - March 31, 1949) shows, (as seen from the table below) substantially higher figures than the original estimate:

	I. Ordinary Budget		II. Capital Budget	
	(in millions of rupees)			
	Budget Estimate	Revised Estimate	Budget Estimate	Revised Estimate
Revenue	2,552	3,383	935	3,135
Expenditure	2,573	3,398	2,061	4,985
Deficit	21	15	1,126	1,850

Principal items of additional expenditure over estimate were:

Defense	Rs 350 million
Pre-Partition liabilities	Rs 207 million
Relief and rehabilitation of refugees	Rs 94 million
Food subsidies and bonuses	Rs 120 million
Total	Rs 771 million

While the ordinary budget was almost balanced, the capital budget deficit amounted to Rs 1,850 million, compared to the estimated deficit of Rs 1,120 million. This deficit, however, was due to over-all settlement with the U. K. which resulted in payment of Rs 2,840 million for financing the purchases of sterling pensions, defense installations and stores left in India by the U. K. at the end of the war, and from the Government purchase of grain paid for in sterling.[1/] Therefore, the 1948-49 budget deficit was met from the accumulated sterling balances and not by an expansion of credit. It did not have any direct inflationary effect. However, the structure of monetary reserves of the Reserve Bank was affected, as sterling balances were replaced by Indian Government Bonds. The ratio of cover of total notes issued by gold and foreign securities declined from 87.3% in July 1948 to 67.4% in September 1948.

Because of the above-mentioned excess of expenditure over budget estimates, and because of inability to raise any substantial capital in the market, although a loan of Rs 1,500 million was contemplated, the Central Government was induced to reduce grants to Provincial Governments for development from Rs 300 to Rs 180 million and loans and advances by the Central Government to Provinces from Rs 502 to Rs 405 million.

(b) <u>1949-50 Budget</u>. The budget estimate for 1949-50 shows total expenditures of Rs 3,225 million and revenues of Rs 3,229. The ordinary budget thus should be balanced. Defense services will account for Rs 1,573 million (49% of ordinary expenditure), food subsidies and bonuses for food procurement

---

1/ A breakdown of the 1948-49 and 1949-50 budget in its rupee and foreign exchange components was prepared by the Indian Ministry of Finance.

Rs 329 million, and expenditure for the relief and rehabilitation of refugees Rs 98.5 million. These three groups represent more than two thirds of total ordinary expenditure. In addition, a provision of Rs 232 million has been made in the capital budget for rehabilitation of refugees.

On capital account the budget again shows a deficit of Rs 1,341 million (Receipts Rs 627 million and expenditure Rs 1,968 million). It includes Rs 268 million for grants and Rs 492 million for loans to Provinces for development. Together with the Central Government expenditure on development and reconstruction, more than Rs 1,000 million will be spent for these purposes.

The total budget broken down into its rupee and foreign exchange components shows a foreign exchange deficit equivalent to Rs 1,870 million, arising mainly from expected government grain and other purchases abroad. The rupee budget shows a surplus of Rs 820 million (this includes net receipts from loans, P. O. Savings Banks and Certificates and Treasury Deposit Receipts totalling about Rs 540 million). The total budget, according to a statement of the Ministry of Finance, would end with a deficit of Rs 1,050 million or Rs 290 million less than is the estimated capital budget deficit. The deficit is supposed to be met by using the rupee surplus and by drawing on the Government balances with the Reserve Bank; it is expected that these balances would be reduced from Rs 1,630 million to 579 million in 1949-50. The reduction of these balances which would be used for the purchase of foreign exchange would not be inflationary and would at the same time remove a danger of a potential inflationary expansion in money volume. Thus, as a whole the deficit would be covered by drawing on the Government's rupee balances with the Reserve Bank and on sterling balances.

For the coming year the Government expects to borrow Rs 850 million in the market, of which Rs 670 million will be used for the repayment of the 3% 1952 loan. The scale of borrowing will be raised if conditions on the capital market improve.

(c) The Outlook. Although the budget in rupees is balanced, and the deficit is being met from sterling balances, the over-all level of expenditure is considered high and direct taxation too heavy, forming an obstacle to business activity and accumulation of savings. High taxation induces many people to withhold profit declarations, to operate through the black market, and to hoard money rather than to pay high taxes or buy Government securities. It may be said that the Government is aware of the necessity of balancing the budget and the urgency of providing some relief in direct taxes:

In his budget speech the Finance Minister ventured a forecast that :-

> "When the time comes to consider the budget for 1950-51 our finances will be definitely more comfortable than they are today. If it happens that the budget shows a substantial surplus next year then it is possible to provide for substantial tax relief and to contribute much more for the development of the essential national building activities."

It may be expected that the defense expenditure will be reduced by Rs 350 million to Rs 400 million if the Kashmir situation improves. Expenditure on refugees is bound to decline. Lower prices for imported food, greater domestic production and larger grain procurement would reduce the amount paid on food subsidies.

(d) Debt Position of the Government of India

The outstanding public debt of the Government of India is expected to amount to Rs 20,300 million at the end of March 1949, and Rs 20,490 million at the end of March 1950, compared to Rs 9,500 million on March 1, 1939. In

addition, the Government is liable for the balance in the various Provident funds, Post Office Savings Banks, the depreciation and reserve funds of the railways, etc. Thus, the total outstanding debt would stand at Rs 25,710 million on March 31, 1950. The debt service during 1949-50 of Rs 393 million accounts for 12½% of ordinary expenditure. Total interest yielding Government assets are given at Rs 14,311 million, the most important item being capital at charge on railways Rs 6,925 million and debt due from Pakistan Rs 3,000 million.

(e) Provincial Finance. In 1948-49 the revised ordinary budget deficit of all the Provinces combined amounted to Rs 137 million and a deficit of Rs 117 million is expected for 1949-50. The financing of this deficit has been included in the Central Government Budget. There is, however, little danger that Provincial financing might become an inflationary force because the Centre has several effective avenues of fiscal control over the provinces. Indebtedness of all the Provinces to the Centre prohibit them from floating market loans without Federal consent, and, moreover, they have to obtain the approval of the Reserve Bank for any borrowing in the market.

2. Money Volume, Prices and Production

(a) Money Value

In the last year no new purchasing power has been created by the monetary authorities. Note circulation continues to conform to the pattern in evidence since the initiation of the Government's anti-inflationary program in the summer of 1948. Notes in circulation dropped from Rs 12,698 million on July 2, 1948 to Rs 11,647 on February 25, 1949 (it was Rs 3,400 million in 1939). If Rs 822 million representing notes returned to India from Pakistan are deducted,

the net decrease in note circulation was Rs 229 million, to which should be added a return of Rs 50 million in one rupee coin which were withdrawn from circulation.

The demand liabilities of the Scheduled Banks declined from Rs 6,961 million in July 1948 to Rs 6,450 million in January 1949; time deposits from Rs 3,115 to Rs 2,931 million. The total money supply (currency, demand deposits of the Reserve Bank, the Scheduled Banks and the Non-scheduled Banks less deposits of the Central Government and all banks with the Reserve Bank) which stood in July 1948 at Rs 21,020 million declined to Rs 20,410 million by February 1949 (it was Rs 4,910 million in 1939).

It is the opinion of the Ministry of Finance, that the quantity of active money in the economic system cannot be measured exactly by money in circulation and bank deposits; an appreciable amount of money has gone underground. The amount of hoarded currency is estimated at Rs 3,000 million. The velocity of circulation of deposits calculated by the Reserve Bank was 9.3 in January 1949 compared with 15 before the war. An increase in the velocity of circulation and the use of hoarded currency in the market may have unfavorable effects on prices, if the supply of commodities does not substantially improve.

(b) Prices

In spite of the fact that no new purchasing power was created by monetary and fiscal authorities, the Government is still concerned with inflationary pressure. The over-all price situation is not yet considered as settled and balanced. A steady rise in prices occurred throughout 1947. The general index of wholesale prices (base: year ended August 1939 = 100) climbed from 290.5 at the beginning of the year to 314.2 at the end of December. Price control was practically abolished in December 1947. The first seven months of

1948 brought a steep rise in the wholesale price index by as much as 76 points to 389.6 in July.

In the summer of 1948 the Government announced the immediate necessity to curb the spiral of rising prices. The most important immediate measure was the re-introduction of price control and rationing of food grain and cloth in September 1948. Since October 1948 prices have begun to decline. The general price index decreased by around 10 to 11 points between November 1948 and March 1949. The average index for February 1949 stood at 372 and declined further to 370.2 for March. Index movements of cost of living (working class) which are calculated for various Provinces separately also indicate a check of the rising trend around September-October 1948.

This decline, or leveling off of prices, is considered a result of the various anti-inflationary measures taken by the Government. In addition to the re-introduction of price control and rationing, the Government decided to curtail all avoidable and unproductive expenditure, both in the Centre and in the Provinces. Limitation of dividends of corporations was introduced and the repayment of Excess Profit Tax deposits was postponed for a further period of three years. Campaigning for small savings has been intensified. Heavier taxes on luxury goods, and higher import duties have been introduced.

In order to increase the supply of consumer goods, imports from soft currency countries have been liberalized. Import restrictions now apply only to commodities subject to internal controls which are mainly to insure equitable distribution.

(c) Production

The policy of the Government has been to combat inflationary pressure by providing a more ample supply of consumer goods; this is to redress the

imbalance between the supply of goods and the accumulated purchasing power and pent-up demand carried over from the war. In order to increase the supply of food grain, imports of food were stepped up and the system of food procurement has been extended and improved. However, a satisfactory supply of food remains one of the main problems of the Government policy.

Industrial production, the index of which reached 126.8 in 1943-44 (October 1939 = 100) dropped to 105 in 1946-47. Since the end of 1947 industrial production has begun to recover and the index reached 119.9 in September 1948. Figures for 1948 show an increase in the majority of industries; only production of coal and steel fell a little short of the production in the previous year. Recovery of industrial production has been facilitated by some improvements on the railways which by the early part of 1948 were approaching a serious break-down in the movements of goods. Various measures have been introduced to encourage new industries and to aid existing industries to step up production. Although the trend of industrial production continues to move upward, it is still too early to say whether the Government has really succeeded in checking the inflationary pressure and reversing the trend. Opinion has been expressed officially that a downward trend in prices of food grains would not occur until the spring harvest about the end of April. In Provinces and States which have fixed the procurement price of grain since the reimposition of food controls, the prices set in April for the current spring grains are below previous levels, in most cases by 4 to 15%. Furthermore, additional areas have now established controlled prices for grain procurement well under the previous wholesale levels. In view of the prospects for an excellent spring harvest, the Government should be able to maintain food purchases at these reduced prices without serious difficulty. The importance of

food grain prices is indicated by the fact that they represent more than 50% of the cost-of-living index.

The labor situation which was very unsettled in 1947 also has shown some improvement. The total number of man-days lost through industrial disputes amounted for January-November 1948 to 7,120 million, compared to 16,130 million in the same period of 1947. It is also significant that of the total industrial disputes, the proportion in which wages were the principal issue was much smaller during the latter part of 1948 than in the previous years.

If the present financial and monetary policy continues, and if the supply of consumer goods, especially of food grain and cloth, is maintained on a satisfactory level, there is reason to believe that the price and wage situation in India may become stabilized with some hope for a further decline of prices of food grain.

3. Accumulation of Savings

The situation on the capital market has been unfavorable throughout the last year. "Owing to the stagnation of the capital market it has not been possible to borrow more than Rs 550 million this year against Rs 1,500 million provided in the budget," says the Explanatory Memorandum on the Government Budget of 1949-50. Postal Savings and other small savings will not exceed the original estimate of Rs 312.5 million. The accumulation of new reserves of the large insurance companies are not expected to reach more than Rs 150 million. Of course there has been investment from current produce in the private sector; in industry, mining and agriculture. Unofficially, the Reserve Bank has estimated this, perhaps too optimistically, at as high as Rs 2,000 million.

Taking all of these items together, savings in the 1948-49 fiscal year would amount to about 2,500 - 2,700 million rupees, or about 5% of national

income, compared to the estimated 8 to 9% in the prewar period.

Savings and the capital market will continue to be affected by the political and social changes which have taken place since independence. Income of the agricultural population has increased but most of these people are not used to monetary savings and prefer to buy consumer goods or to hoard gold and jewelry. The changed status of the Princes, the weakened position of the Zamindar (for all practical purposes large land owners) and the nervous attitude of the business community may affect the accumulation of savings and the capital market for some time to come. At present capital is shy in India. One reason is that the business community has become wary at the prospect of nationalization. Another reason is the high rate of direct taxation already mentioned.

Indian industrialists also have stressed the fact that because of reduced profit margins they are unable to maintain the level of new investment.

It is doubtful whether the Government could float a major loan in the market at present, and private business would also find it difficult to do so. Therefore, one of the most urgent problems for the Central Government is to re-establish confidence of investors and to stimulate savings. The Government seems aware of this difficult situation. In recent months nearly all members of the Government have emphasized that no industries will be nationalized within the next ten years, not even those the nationalization of which was a

part of the Government program.[1] The Government has repeatedly emphasized that there will be a wide scope for private enterprise in India.

It is clear that the Government, in addition to the measures to restore confidence, will have to intensify its efforts to stimulate and mobilize savings and to channel them properly into productive purposes. Unless the country is able to save yearly an amount substantially greater than in the 1948-49 fiscal year, it will not be possible to carry out a development program on anything like the envisaged scale. If the Government cannot borrow in the market, it may be under pressure to finance various projects from new or increased taxation or even from inflationary deficit financing.

1/ Resolution on industrial policy of April 6, 1948 stated that the Government has decided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railways transport should be the exclusive property of the Central Government. In addition, in the case of the following industries the State will be exclusively responsible for the establishment of any new undertakings except where in the national interests the State itself finds it necessary to secure the cooperation of private enterprises: coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless equipment; mineral oils. At the same time it was decided to let existing undertakings in these fields develop for a period of 10 years. At the end of this period the whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time.

III. BALANCE OF PAYMENTS.

1. Balance of Payments for 1947-48.

The most important features of India's balance of payments for the last two years are an over-all import surplus and a great dollar deficit as compared to the usual export surplus and dollar surplus before the war. The figures given below for the balance of payments for the second half of 1947 and the first half of 1948 have been supplied by the Ministry of Finance. Estimates for the second half of 1948 have been prepared by the same Ministry. In addition, a balance of payments statement for 1948 has been prepared by the Reserve Bank of India from the quarterly returns of the Exchange Control.[1/] (See Appendix 1).

(a) Balance of Payments - July-December 1947.
(In Rs Millions)

Exports	1,920	1. Imports	
		a. Commercial	1,700
		b. Government:	
		Food	500
		Other	160
Invisibles	420	2. Government Expenditure	50
		3. Invisibles	210
Total	2,340	Total	2,620

Balance of Payments deficit: Rs 280 million

Balance of Trade deficit: Rs 440 million

1/ India does not have proper balance of payments statistics. The Reserve Bank has only recently organised a balance of payments division which is trying to improve the balance of payments statistics.

It should be noted that the Government food purchases for the second half of 1947 were greater than the balance of payments deficit.

(b) Balance of Payments - January-June 1948.
(In Rs Millions)

Exports	2,380	1. Imports:	
		a. Commercial	1,350
		b. Government:	
		Food	700
		Other	200
Invisibles	590	2. Government Expenditure	150
		3. Invisibles	360
Total	2,970	Total	2,760

Balance of Payments surplus: Rs 210 million

Balance of Trade surplus: Rs 130 million

Balance of payments and balance of trade show a surplus in spite of the Government's large food imports.

(c) Balance of Payments - July-December 1948 (Estimates)
(In Rs Millions)

Exports	2,270	1. Imports:	
		a. Commercial	1,760
		b. Government:	
		Food	560
		Other	410
Invisibles	490	2. Government Expenditure	220
		3. Invisibles	360
Total	2,760		3,310

Balance of Payments-estimated deficit: Rs 550 million

Balance of Trade-estimated deficit: Rs 460 million

The over-all deficit of Rs 550 million in the second half year is only slightly lower than the Government food imports of Rs 560 million.

The Dollar Deficit.

The over-all balance of payments position is not too unsatisfactory, especially in view of the fact that India has been able to meet its deficit with the Sterling Area and some countries not belonging to the Sterling Area by drawing on Sterling balances. The dollar position however is very difficult.

According to the Government's statement, the dollar deficit was:

In the period July 1-December 31, 1947 (presumably for undivided India)	$ 162.8 million
January 1-June 30, 1948	58 "
July 1-December 31, "	105 "
Deficit from July 1, 1947 until the end 1948 was	$ 325.8 "

The main reason for the dollar deficit is the fact that India had to turn increasingly to the hard currency area since countries with economies disrupted by the war could not meet her requirements. This has been particularly true of food which is today the largest single item in India's foreign exchange expenditure. Burma could not supply all the rice India needed because of the ravages of the war and its aftermath. Australia could not provide as much wheat as India wanted because the U. K. had priorities in supplies. In 1948 around $150 million was spent on imports of food which compares with the total estimated dollar deficit of $163 million in that year.

But increased food imports have not been the only reason for a change in India's balance of trade with the hard currency area, especially with the U. S. At the end of the war a huge pent-up demand for all kinds of goods existed in India. Industry needed new machinery to replace that worn out during the war. Many American consumer and durable goods were in demand and American

machinery was also preferred for various new projects. European countries were not yet able to supply many of the requested goods and, moreover, two of the prewar important suppliers of India (Japan and Germany) have started to export only recently.

Furthermore, the rater liberal import policy followed by the Indian Government at the end of 1947 made possible increased imports from the hard currency countries with the repercussions continuing into the first half of 1948. Finally, account has to be taken of the decrease in dollar earnings as a consequence of Partition.

India's trade deficit with the hard currency area amounted to

Rs 482 million for the second half of 1947 and

Rs 87.5 million for the first half of 1948, or

Rs 569.5 million ($172 million) for this period.

The estimated deficit for the second half of 1948 is equal to

Rs 300 million ($90 million).

According to these figures the total trade deficit with the hard currency area for the period July 1, 1947 to December 1, 1948 was $262 million.

Trade with the U. S. shows a deficit in the second half of 1947 of Rs 550 million ($166 million). During this period Government purchases accounted for Rs 274 million ($83 million).

The deficit for the first half of 1948 was Rs 232 million ($71 million) with Government purchases amounting to Rs 207 million ($63 million).

According to the Indian statistics of seaborne trade the deficit with the U. S. amounted to Rs 234 million ($70 million) in the first eleven months of 1948 with total exports at

Rs 715 million and total imports at

Rs 949 million.1/

The changed trade position of India with the U. S. is reflected in the trade statistics for the first 11 months of 1948. Imports from the U. S. accounted for 23% of the total compared to only 7% in the prewar period. Exports to the U. S. increased from 9 to 18% of the total.

2. The 1949 Foreign Exchange Budget and Measures towards Reducing the Dollar Deficit.

(a) Foreign Exchange Budget for 1949.

The foreign exchange budget for the first half year of 1949 ends with an over-all deficit of Rs 850 million. The trade deficit is estimated at Rs 1040 million. The deficit with the dollar area is put at Rs 320 million, and other hard currency areas at Rs 100 million. (For details see Appendix 2).

The Ministry of Finance planned, according to its statement, to meet the whole hard currency deficit of $129 million in the following way:
$30 million would be provided from the cash balance with the Indian Supply Mission and the Central reserves of the Sterling Area at the end of December 1948; $47 million would be purchased from the IMF during January/June 1949.

1/ These figures differ, however, from U. S. trade statistics for 1948. According to U. S. statistics U. S. exports to India totalled $297.5 million, imports from India $267.7 million, the U. S. trade surplus amounting to about $30 million. No explanation is yet available for the discrepancies between the U. S. and Indian statistics.

(Since January 1, 1949 $31.5 million has been purchased). Hope was expressed that a Bank loan would finance a railway project of about $50 million before the end of June 1949. The official statement says "if progress with the negotiation of a loan from the Bank does not proceed according to expectations, it will be necessary to adjust the provisional budget accordingly."

The estimated foreign exchange budget for the whole of 1949 shows a total deficit of Rs 970 million and a trade deficit of Rs 1240 million. The expected Government food imports are estimated at Rs 1150 million (for details see Appendix 3). The deficit with the hard currency areas is given at Rs 600 million while food purchases amount to Rs 350 million. Thus, the second half year estimate assumes a smaller deficit with the hard currency area than is shown in the foreign exchange budget for the first half year 1949.

(b) Measures towards reducing the Dollar Deficit.

(i) Shifting imports to soft currency countries.

In reviewing India's balance of trade position, the Government rightly places more emphasis on the prospect for import reductions from the hard currency area than on expansion of exports which is considered rather as a long-term possibility. Early in July 1948, imports from soft currency countries were liberalised, in order to increase the supply of goods and the discriminate form of import control introduced for dollar and hard currency areas on January 1, 1948 has been further tightened. In 1948, 16% of the total imports from the dollar area consisted of plant and machinery; 46% were industrial goods including raw materials and some manufactured articles; and 37% were essential consumer goods, mainly food grains. Imports of luxury and semi-luxury goods accounted for only 2% of the total imports. Licenses for imports from the

dollar area are given only for plant, machinery, industrial raw materials and a few essential consumer items. It is the policy of the Government to continue shifting imports to soft currency areas, in particular to the Sterling Area, and hope has been expressed that it will be possible to reduce commercial imports and Government imports from the dollar area by about 10% in 1949.

The Government is particularly endeavouring to switch imports of food grains to the non-dollar area. The Ministry of Food has submitted a revision of estimated grain imports for the period 1949-53 (dated March 31, 1949) which alters the earlier estimates of foreign exchange requirements for food imports. The principal difference in the two sets of figures results from a shift in the expected sources of food imports with a larger proportion anticipated from soft currency areas and a smaller proportion from hard currency areas.

A comparison of the latest revisions with the previous estimates are shown in the following table:

Foreign Exchange Requirements for Grain Imports, 1949-53.

	Dollar Requirements ($ 000,000)			Sterling Requirements (£ 000,000)		
	Previous Estimate	Latest Estimate	Increase or Decrease	Previous Estimate	Latest Estimate	Increase or Decrease
1949	130	78.2	-51.8	54.7	74.6	+ 19.9
1950	63	29.2	-33.8	60.8	61.7	+ .9
1951	43.3	3.8	-39.5	52.9	64.1	+ 11.2
1952	16.9	1.9	-15	44.2	60.7	+ 16.5
1953	None	.8	+ .8	45.8	50.6	+ 4.8

The revised estimates of total grain imports for the period in thousands of metric tons are as follows:

	To be paid for in hard currency	To be paid for in soft currency	To be covered by barter	Total
1949	825	2205	770	3800
1950	400	2100	500	3000
1951	-	2225	475	2700
1952	-	2250	250	2500
1953	-	1900	100	2000

On the basis of this expected reduction in dollar expenditures on food in 1949, the estimated dollar exchange deficit for 1949 would be reduced by about $35 million to $145 million.

(ii) Orientation of exports to hard currency countries.

Another phase of the Government's policy is to increase exports to the hard currency area. For this reason, export control and destinational quotas were introduced for some important commodities such as jute manufactures, pepper, manganese, cotton piece goods, crushed bones.

The Ministry of Finance made a forecast that exports to the U. S. in 1949-50 would amount to about $280 million, and in 1950-51 to about $305 million. This would mean an increase over 1947 exports to the U. S. of $50 million in 1949-50, and of $75 million in 1950-51 (both on f.o.b. basis). Most of this increase is expected from large exports of manufactured jute, mica, lac, cashew nuts. Slight increases are also forecast for tea and manganese, while some reduction from 1947 level is expected for raw cotton and wool and hides and skins.

The volume of India's exports is still below prewar. According to the International Financial Statistics, the volume of September 1948 exports was 56% (1937 = 100) and, for the whole of 1947, 66%. Although exports have increased in 1948, volume has not yet reached the prewar level.

In order to increase exports, various other measures will have to be taken. Transportation difficulties, for instance, were the chief reason why exports of manganese and other minerals in 1948 were so low. It may be necessary to re-examine the various export duties which form obstacles to sales to the hard currency area. Some of these duties were abolished in 1948. Others were reduced just recently. Moreover, the country is endeavouring to expand its trade relations to find new sources of supplies of various commodities and is

arranging a great number of trade agreements. Trade agreements have already been signed with Switzerland, Argentina (a barter agreement), the Bi-Zone, Yugoslavia, Czechoslovakia, Iran, Siam, Poland, and Afghanistan, and negotiations have advanced with Belgium and the Soviet Union.

(iii) The price problem.

Finally, the price problem seems to be ripe for a close examination. India too is under the impact of a dual price system, and the prices of various goods are too high to be sold in the dollar area. Importers, especially of capital goods, prefer to purchase in the hard currency area very often because they maintain that not only is the delivery period shorter but the prices are cheaper. On the other hand, exporters prefer to sell to the soft currency areas because they can often obtain higher prices than in the hard currency area. The price level in India, judging from the wholesale price index alone, may be considered too high as compared - on the basis of the present exchange rate - with the price level in the U. S. or in the U. K. This would raise the question of whether a devaluation of the rupee may not be necessary in order to improve the balance of trade. The Government, while examining this problem, would prefer to try other measures to overcome the difficulties originating in the dual price system. It is possible that the Government may suggest the introduction of multiple exchange rates.

(c) Monetary Reserves.

India is facing a serious position in meeting its dollar needs. This alone should be a strong factor in directing its foreign trade policy. India's allocation of dollars from the Sterling Area Central reserve was exhausted by the end of February. The working balances amount only to about $10 million. Gold

holdings of the Reserve Bank were Rs 401 million at the end of February, 1949 compared to Rs 444 million at the end of February 1948.[1/] The decline was due mainly to the gold transfer to Pakistan. Further small amounts will be transferred to Pakistan as India's notes are being returned. It is evident that in the present circumstances the Government expects a further conversion of its Sterling balances in dollars. For the period July 1, 1948 to June 30, 1949, a total amount of £15 million was to be released in hard currency. Subsequent hard currency drawings are to be the subject of negotiations to be opened before the end of June, 1949.

For the payment of its deficit with the Sterling Area and through the Sterling payment agreements also, for instance with Switzerland and Sweden, India can draw on its Sterling balances. The total amount of Sterling balances at the end of February 1949 was £729.5 million. The Sterling balances in the No.1 Account (available for current transactions) were reduced from £80.5 million on July 2, 1948 to £22.6 million on February 25, 1949. For 1949-50 and 1950-51 new releases up to a yearly maximum of £40 million in amounts of £5 million have been agreed upon, provided that the balance in the No.1 Account falls below £60 million. The No.2 Account Sterling balances declined from £990 million on July 30, 1948 to £706.9 million on February 25, 1949. The biggest drop from £990 million to £727 million occurred in August 1948 when the

1/ The gold reserve valued at the par value gold content agreed upon with the IMF (.268601 grams per rupee) is about Rs 700 million or substantially higher than is the amount which appears in the weekly statements of the Reserve Bank. It seems not to be in the interest of the present financial situation in India to proceed now with the re-valuation of the gold holdings of the Reserve Bank.

over-all financial settlement between the U. K. and India was made.

Beginning with the second half of 1948, India has been making substantial use of its Sterling balances and intends to continue using them. It has however been repeatedly stated that these balances should not be used for imports of unnecessary commodities but be reserved for purchases of needed goods.

3. Balance of Payments Prospects

(a) Is the Dollar Shortage a Permanent Feature?

In view of the present critical dollar position the question must be answered whether the dollar shortage is temporary or permanent. As explained previously the dollar deficit has been largely due to food imports. If India succeeds as intended in reducing food imports from the dollar area, by switching its purchases to the Sterling Area or by considerably increasing its domestic production and the procurement of foodstuffs, its dollar position will be substantially improved. Some postwar imports may be considered of a temporary character, especially the pent-up demand carried over from the war for all kinds of goods. The country must, however, continue to try to buy even various capital goods in the non-dollar area in exchange for its commodities. In doing so it can also take advantage of its sterling balances, of which £40 million will be newly released on July 1, 1949. As Great Britain's recovery progresses and as the use of sterling in international payments is further enlarged, or at least maintained as at present, India will be in a position to import more goods by using its sterling balances. Moreover, the shifting of imports to the soft currency area would also assist in the redistribution of sterling of which a shortage is being felt in some European countries.

In summary, although India must attempt to increase exports to the hard currency area, quicker relief in the present difficult dollar situation may be expected by reducing purchases from the dollar area. The problem cannot be settled immediately but the dollar deficit need not be considered as permanent.

It should be noted that India's foreign trade position with the U.S. is on the whole more favorable than that of many other countries as

was shown in the prewar period. India's exports to the U.S. consist mostly of raw materials or commodities which do not compete directly with U.S. products, and which have an old established market in the U.S. If jute manufactures should maintain their position on the U.S. market, and there is good reason to believe that this would be the case for some years to come if prices were reduced, then India may hope to regain at least its prewar exports' volume to the U.S. Reduction of exports due to Partition may be substituted by increased exports of other commodities, such as: manganese, mica, kynite, chromite, lac, ilmenite, tin and cashew nuts. Once the large imports of grain from the U.S. are substantially reduced, or completely eliminated, India should again achieve an export surplus with the U.S. India's imports from the U.S. are rather flexible and may be reduced or increased according to the dollar supply.

(b) Long Range Prospects

India will continue to import various commodities, especially capital goods needed for its development. It also may need to import food for a longer period than is assumed by the Indian Government. As the country develops, however, it will be able to reduce imports of various commodities which will be produced in India. This can be said for instance of fertilizers soon to be produced, of steel if new plants are erected, of aluminum, of soda ash and other chemicals, the production of which is being expanded. The increased production of paper and planned production of newsprint may reduce imports of these commodities. In the process of development and increasing productive machinery, a country usually needs foreign capital. India is better off than many other countries because she possesses substantial sterling balances which may be used for the purchase of needed capital equipment.

India should be able to expand its exports which, as mentioned, have not yet reached the prewar volume. It should be possible to increase

exports of raw materials, including iron ore, for which a good market will exist, for instance, in Japan. Export of manganese, chromite, kynite, ilmenite and other minerals could be stepped up. In addition, India has a good chance of exporting various manufactured goods including textiles, shoes, leather goods, and ironware to Far Eastern and Middle Eastern countries, thus continuing a trend which started even before the war. Therefore, in addition to the rather favorable trade structure with the U.S., India should develop a substantial trade with neighboring countries and expand its old established trade with the Sterling Area and the European Continent. To achieve all this, India's productive machinery will need to be modernized and the cost of production brought down to a competitive level.

In assessing India's balance of payments prospects it should be noted that as a result of World War II almost the entire foreign debt was repaid and India has become a substantial creditor of the U.K. The external sterling debt of £350 million in 1939 has been reduced to only £4 to £5 million, which require external servicing. 1/ Except for the dollar obligations of $99.98 million to the International Monetary Fund, India has practically no foreign debt.

Private foreign investment in India is substantial, the major part of it being owned by the British. Estimates of the total value of British investment in India varies from £200 to £400 million. A census of private foreign investment is expected to be completed sometime in the fall of 1949. For the first half of 1948 profits and interest paid to the Sterling Area are given as Rs 26 million (around £2.2 million). This payment is

---

1/ Furthermore the remaining sterling municipal obligations total about £8 million, of which approximately £3 will be due in 1952, £2 million in 1953 and £3 million thereafter to 1969.

offset by the 3/4 of 1% interest which India is receiving on its sterling balances (about £5 million yearly).

(c) Attitude toward private foreign investment

The Indian Government realizes that with the aid of private foreign capital the country could be developed more quickly. In his speech on March 16 in the Assembly the Finance Minister mentioned that the country would be very wise to look to private foreign investors and experts of a known skill to participate in the development of India. The Prime Minister said in his statement in the Assembly on April 6:

> "Indian capital needs to be supplemented by foreign not only because our national savings will not be enough for rapid development of the country on the scale we wish, but also because in many cases scientific, technical and industrial knowledge and capital equipment can best be secured along with foreign capital."

He further stated that:

> "Government will not object to foreign capital having control of a concern for a limited period if it is found to be in the national interest and each individual case will be dealt with on its merits. Government would also so frame their policy as to enable further foreign capital to be invested in India on terms and conditions that are mutually advantageous."

If the Government's expectation proves to be correct and private foreign capital becomes really interested in the economic development of India, India's progress may be better and faster and some of the balance of payments difficulties may also be mitigated.

APPENDIX I

Balance of Payments for 1948

(in Rs. Millions)

Receipts		Payments	
Exports	4,397	Imports - Commercial	3,542
		Government	1,362
Services			
a. Private	300		274
b. Government	1,008		1,728
Unilateral transactions	73		73
Unclassified	573		610
Total	6,351	Total	7,589

Deficit Rs 1,238 million; Trade deficit Rs 507 million.

Note: Prepared by the Reserve Bank of India from the quarterly return of the Exchange Control.

Dated 27th January, 1949 Appendix 2

FOREIGN EXCHANGE BUDGET
For the Dominion of India
For the half-year January-June, 1949
(in millions of rupees)

RECEIPTS	Dollar area	Other hard currency areas	Switzer-land	Japan	Other currency areas	Total
I. Exports	600	60	10	30	1150	1850
II. Invisibles	30	-	-	-	560	590
Total	630	60	10	30	1710	2440
Deficit	320	70	40	30	770	1230
Deduct						
Savings on account of						
(1) Petrol					90	90
(2) Infructuous licensing (20%)					290	290
Net Deficit	320	70	40	30	390	850

EXPENDITURE	Dollar area	Other hard currency areas	Switzer-land	Japan	Other currency areas	Total
I. Imports						
(a) Commercial	450	120	40	60	1470	2140
(b) Government						
(i) Food	210*	-	-	-	460	670
(ii) Civil	200	10	-	-	120	330
(iii) Defence	30	-	-	-	100	130
II. Government expenditure						
(a) Pensions	-	-	-	-	50	50
(b) Other	-	-	-	-	30	30
III. Invisibles						
(Account No.1)	60	-	10	-	250	320
Total	950	130	50	60	2480	3670

*Exclusive of Rs 90 million under the barter arrangements.

Source: Ministry of Finance, New Delhi

Dated 22nd January, 1949

Appendix 3

ESTIMATE OF FOREIGN EXCHANGE BUDGET FOR THE DOMINION OF INDIA FOR THE YEAR 1949.

(in millions of rupees)

RECEIPTS	Dollar area	Other hard currency areas	Switzer-land	Japan	Other currency areas	Total
I. Exports	1200	150	20	80	2600	4050
II. Invisibles	60	-	-	-	1000	1060
Total	1260	150	20	80	3600	5110
Deficit	570	30	50	-	320	970

EXPENDITURE	Dollar area	Other hard currency areas	Switzer-land	Japan	Other currency areas	Total
I. Imports						
(a) Commercial	1000	160	60	80	2100	3400
(b) Government						
(i) Food	350	-	-	-	800	1150
(ii) Civil, Rail-ways & Defence	360	20	-	-	360	740
II. Government expenditure						
(a) Pensions	-	-	-	-	100	100
(b) Other	-	-	-	-	60	60
III. Invisibles						
Account No.1	120	-	10	-	500	630
Total	1830	180	70	80	3920	6080

Source: Ministry of Finance, New Delhi.