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India: Recent Economic Developments

This Recent Economic Developments report on India was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of India or the Executive Board of the IMF.

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INDIA

Recent Economic Developments

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Approved by the Asia and Pacific Department

August 13, 1998

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I. Introduction and Overview

1. After three successive years of growth over 7 percent, growth slowed to an estimated 5 percent in 1997/98.[1] The slowdown predates the Asian crisis, and its proximate causes are a decline in agricultural output and weak industrial sales. Weaker investment appears to be a major factor behind the industrial slowdown. Although cyclical factors have played a role, fundamental constraints linked to the partial nature of the structural reforms are becoming more evident. High real interest rates, infrastructure bottlenecks, and delays in establishing the regulatory framework for private sector participation in some key sectors have dampened investment, industrial production, and exports.

2. Meanwhile, inflation remained subdued during 1997/98, despite an adjustment in administered prices of petroleum products, benefiting from a favorable crop in the previous year as well as the growing integration of the Indian economy with the global economy that has allowed the effect of lower international prices to feed into India's price system. However, more recently, inflationary pressures have emerged in part because of tight supply conditions for some food items. Consumer price inflation (which gives a higher weight to food) reached 12½ percent in June 1998, while wholesale price inflation has risen to 8 percent at mid–July 1998.

3. The balance of payments continued to improve in 1997/98, despite a widening in the current account deficit to 1½ percent of GDP. Export growth in dollar terms has remained weak, while import growth has been stronger. Portfolio inflows fell sharply in 1997/98, although this decline was offset by buoyant net inflows of foreign direct investment and external commercial borrowing. The rupee came under pressure during the year, and the authorities initially sought to secure a soft landing through heavy spot and forward intervention. The rupee has depreciated by 19 percent against the dollar between the onset of the Asian crisis in July 1997 and end–July 1998. Foreign currency reserves remain comfortable at $24 billion at end–July 1998, equivalent to 5½ months of imports.

4. The underlying fiscal position weakened significantly in 1997/98, reversing some of the gains made in recent years. The deficit of the central government (excluding divestment receipts) rose by one percent of GDP to 6.2 percent, mainly on account of a major shortfall in tax revenue. Despite the widening of the deficit of the central government, the deficit of the consolidated public sector (which includes the central and state governments, and central public enterprises) is estimated to have narrowed slightly to 9.4 percent of GDP in 1997/98 because of several one–time factors (including receipts from a tax amnesty scheme and the fall in international oil prices). The budget for 1998/99 envisages a modest reduction of the deficit of the central government to 5.9 percent of GDP.

5. The conduct of monetary policy during 1997/98 continued to be complicated by the large fiscal deficit. Against the background of declining inflation and sluggish growth in

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[1] India's fiscal year begins on April 1.

industrial production, the Reserve Bank of India (RBI) continued to ease monetary conditions during the first half of the year. However, faced with pressure on the rupee, monetary conditions were tightened in November 1997 and then again more forcefully in January 1998. As stability in the foreign exchange market was restored, the tightening was largely reversed during March and April 1998.

6. The process of structural reform has slowed over the past year, especially in the months leading to the March 1998 parliamentary elections. Although several important steps were taken (especially in the areas of foreign direct investment, the financial sector, and the industrial policy regime), overall progress was incremental and uneven, with limited headway made on fundamental issues. The new government has taken steps to continue the phased removal of India's quantitative restrictions on imports, and has indicated in the 1998/99 budget its intention to move ahead in a number of areas including: divestment of public enterprises; enhancing the role of the private sector in infrastructure development; partially opening the insurance sector; and attracting foreign direct investment by simplifying procedures.

II. Economic Activity and Prices

A. Activity

7. **Real GDP** is provisionally estimated to have grown by 5 percent in 1997/98 (Table II.1).[2] This compares to average growth of 7½ percent during 1994/95–1996/97. The seeds of the slowdown evident in the 1997/98 data can be traced back to 1996/97, and hence pre–date the Asian crisis. In 1996/97, growth in the industrial sector slowed sharply, but this slowdown was offset by a very strong rebound in agricultural production following the poor harvest in 1995/96, so that overall GDP growth maintained the strong momentum of the previous two years. However, with agricultural production declining in 1997/98, and growth in the industrial sector picking up only slightly, GDP growth slipped to its lowest level since 1991/92.

8. The slowdown is partly due to cyclical factors. The increase in India's **potential growth rate** to around 6 percent (underpinned by the strong rise in saving and investment

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[2]Central Statistical Office advance estimates. However, it is likely that growth will be revised up reflecting both the tendency for preliminary GDP figures to underestimate growth because of partial coverage of the agricultural sector, and recent changes to the calculation of the monthly industrial production index. During the past four years, the upward revision to annual growth rates has averaged around 1 percent.

and efficiency gains since 1992/93),[3] together with the large output gap that developed in the early 1990s, enabled growth to expand rapidly during 1994/95–1996/97 (Chart II.1). By 1996/97, however, a positive output gap had developed (output above potential), but the slowdown over the past year is now estimated to have resulted in a small amount of cyclical slack developing in the economy.

Table II.1: Growth, Saving, and Investment

	Average 1984/85–1993/94	1994/95	1995/96	1996/97	Est. 1997/98
			(In percent)		
Real GDP growth	5.2	7.8	7.2	7.5	5.0
Agriculture	2.9	5.1	–3.0	7.9	–2.0
Industry	6.1	10.4	12.5	6.4	5.7
Services	6.6	7.7	10.4	8.1	8.9
WPI inflation	9.0	10.4	5.0	6.9	5.0
			(In percent of GDP)		
Gross domestic saving	21.0	25.6	25.3	26.1	...
Gross domestic investment	23.0	26.9	27.1	27.3	...

Source: Data provided by the Indian authorities.

9. However, more fundamentally, growth appears to have been limited by **structural impediments**. Persistent fiscal pressures and weaknesses in the financial sector have kept real interest rates high, and access to credit has been affected as banks have (appropriately) sought to strengthen their balance sheets. Infrastructure constraints in a number of key areas of the economy, particularly the power, roads, and port sectors, have come to the fore as reform and investment in these sectors has failed to keep up with developments in the rest of the economy, and have limited any further upward movement in growth potential.[4] Indeed,

[3]Estimates from time–series analysis using a Hodrick–Prescott filter. However, such estimates should be treated with caution in an economy undergoing structural change and with considerable underemployment.

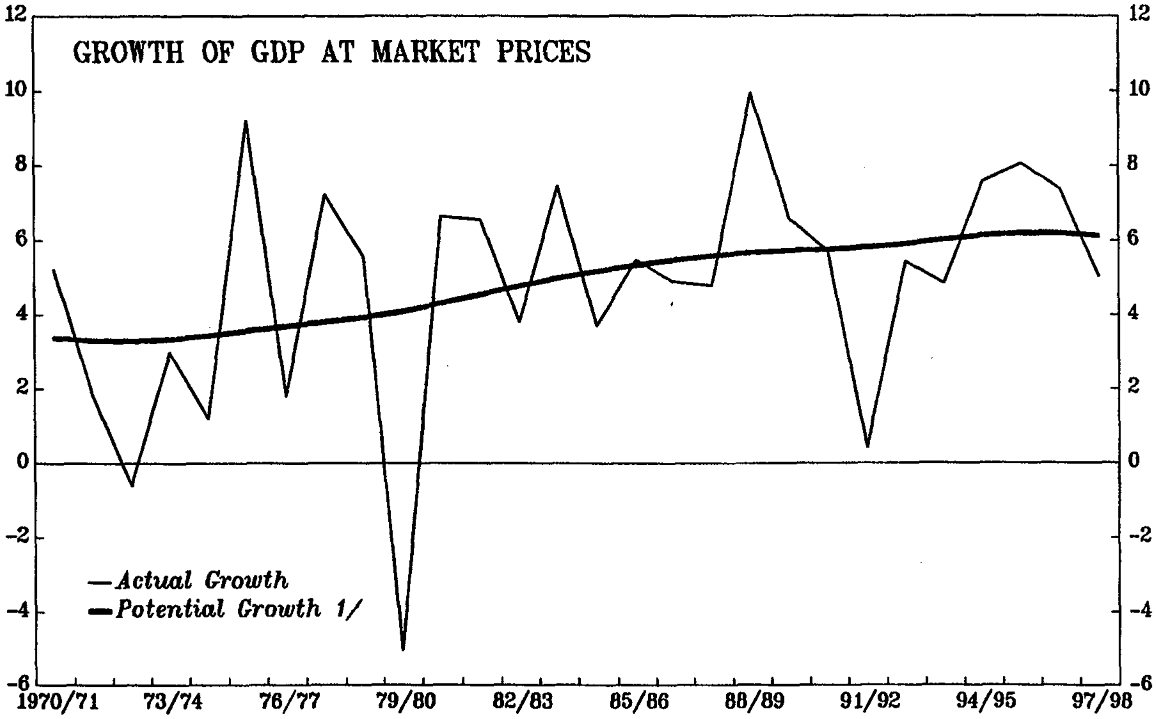
[4]See *Economic Survey, 1997/98*, Chapter 9, for more details of the problems with existing infrastructure.

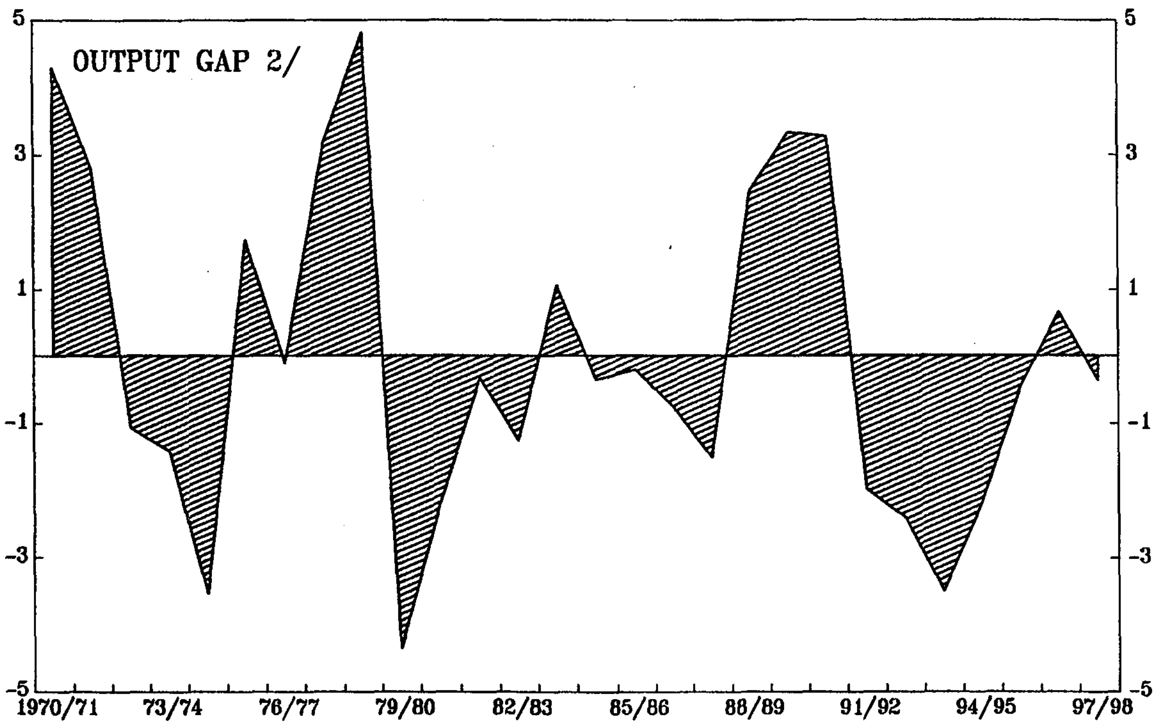
CHART II.1

INDIA

ACTUAL AND POTENTIAL OUTPUT GROWTH, 1970/71-1997/98

(In percent, unless otherwise noted)





Sources: National Account Statistics; 1997/98 Economic Survey; and staff calculations.

1/ Estimated using a Hodrick-Prescott filter.
2/ Actual output less potential output as a ratio of potential output.

Ahluwalia (1998) concludes that "during the first five years of economic reforms there was inadequate expansion of capacity in all infrastructure sectors except telecommunications."[5]

10. **Power** constraints are a significant problem, with many companies reporting interruptions to service.[6] While electricity production increased by 7 percent in 1997/98, compared to 4 percent in 1996/97, according to the Annual Report of the Union Ministry of Power the country still faced an average energy shortage of 8 percent in 1997/98. Ahluwalia (1998) notes that the shortage of power was perceived as a critical constraint at the start of the Eighth Plan period (1992–1997), but expansion of capacity under the plan has been very disappointing. He goes on to note that this poor performance is largely a reflection of the deteriorating financial health of the SEBs, which, in turn, is due to the very low tariffs for certain categories of consumers and operational inefficiencies.

11. **Transportation** is another problem area. Road transportation, which currently accounts for about 80 percent of passenger movement and 60 percent of freight movement, is hindered by the large number of unsurfaced roads (50 percent of total road network) and the over–dependence on national highways. These national highways account for less than 2 percent of the road network, but carry as much as 40 percent of the movement of goods and passengers. This results in substantial congestion, and commercial vehicles are able to run only 200–250 km per day compared to 600 km per day in developed countries (Ahluwalia, 1998).

12. Port capacity is also insufficient to meet existing demand, and the **ports** are characterized by outdated technology, restrictive labor practices, and slow custom clearance procedures. This results in pre–berthing delays, longer ship turnaround time, and higher costs compared to other ports in the Asian region.

13. Government policy has focussed on improving the efficiency of public sector infrastructure provision and encouraging a greater role for the private sector. (Recent structural reform initiatives are outlined in Box II.1.) In the power sector, regulatory bodies are to be set up at the center and state levels to deal with tariff related matters, while states will be required to explicitly provide for losses incurred by SEBs as a result of subsidized tariffs. Some states have already begun the process of restructuring the power sector. In Orissa, the SEB has been replaced by separate corporations dealing with thermal and hydro generation, distribution, and transmission. The government intends to introduce private participation gradually in each of these areas, with privatization of the distribution sector on

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[5]Ahluwalia, M., (1998), "Infrastructure Development in India's Reforms," in I.J. Ahluwalia, and I.M.D. Little (eds.), *India's Economic Reforms and Development: Essays for Manmohan Singh* (New Delhi: Oxford University Press).

[6]The state sector accounts for about 70 percent of total generating capacity through plants owned by the State Electricity Boards (SEBs), the center for 25 percent of capacity, and the private sector for 5 percent.

Box II.1: Key Structural Reforms Since April 1997

Public enterprises

- The government has announced plans in the 1998/99 budget to accelerate the **divestment process**, including reducing holdings in nonstrategic enterprises to 26 percent.

- Limited increases in autonomy were granted to selected **central public enterprises (CPEs)**, and about 700 non-essential guidelines (out of a total of 892) governing the operations of CPEs were eliminated.

Financial sector

- The government announced in the 1998/99 budget that the **insurance sector** would be opened up to Indian companies. Implementation details are still to be announced.

- See Box IV.2 for other key measures relating to financial sector reforms.

Trade reforms

- **Gold and textile imports** have been liberalized. Exports and imports of all petroleum products will be allowed outside the specified canalizing agencies by the end of 2002 (see also Box III.2 and Box V.1).

- Over a quarter of the remaining **quantitative restrictions on imports** have been liberalized, but restrictions remain on most consumer goods. India reached an agreement with the European Union and Australia on the phasing out of quantitative restrictions on consumer good imports over a six year period.

- The government signed the WTO agreement on **trade in financial services**. India will give MFN status to all foreign banks, and foreign banks will be able to open up 12 branches a year in India, instead of the present eight.

Foreign investment

- Automatic approval will be granted for 100 percent foreign participation in projects up to Rs 15 billion in the **power generation, transmission, and generation sectors** (previously only up to 74 percent was allowed through the automatic approvals route).

- The maximum stake foreign companies can take in **highway projects** has been raised from 51 to 74 percent, while domestic companies have been permitted to raise external commercial borrowing for up to 35 percent of the highway project cost.

- The setting up of 100 percent foreign–owned subsidiaries for investment in **ports** has been approved.

- Foreign equity participation up to 100 percent has been allowed in **private coal mines** set up for captive power generation.

- Foreign investment is to be permitted in the **housing sector**.

- The **foreign portfolio investment** limit in Indian companies was raised to 40 percent (30 percent for foreign institutional investors and 10 percent for nonresident Indians).

Box II.1: India—Key Structural Reforms Since April 1997 (concluded)

Capital account convertibility

- The phased opening of the capital account continued. The key steps taken over the last year are outlined in Box V.4.

Infrastructure

- The Rakesh Mohan Committee on Infrastructure recommended setting up **autonomous regulatory bodies for each infrastructure sector**. The Telecom Regulatory Authority of India was established in February 1997, and the Tariff Authority for Major Ports was set up in April 1997. In the power sector, regulatory bodies at the central—the Central Electricity Regulatory Commission (CERC)—and state levels—State Electricity Regulatory Commissions— are to be set up (the CERC came into being in late July). The commissions will deal with tariff related matters in generation, distribution, and transmission, as well as advising on the power sector in general.

- The government has announced its intention to repeal the **Urban Land Ceiling and Regulation Act** and thus ease the supply of land in urban areas.

- A levy on petrol was introduced in the 1998/99 budget to **fund the development of national highways**.

- A new **airport infrastructure policy** was announced, which included automatic approval for foreign participation in airport projects.

- Norms for **bank financing of infrastructure projects** in the power, telecommunications, roads, and port sectors have been relaxed.

- The **oil pipeline sector** was opened to private investment.

Industrial policy

- The phased dismantling of the **Administered Pricing Mechanism in the petroleum sector** over 1998/99–2001/02 has been announced. This began in April 1998, and includes: withdrawal of cost–plus formula for indigenous oil producers; pricing of petroleum products at the refinery gate level to move gradually toward import parity; consumer prices of major petro–products to move toward market prices; duties on crude and petro products to be rationalized (see also Box III.2).

- **Petroleum refineries** have been delicensed and dereserved from the public sector.

- **The number of industries requiring license** from the government was reduced from 14 to 9.

- Restrictions on investment in **sectors reserved for small–scale industry** were made more flexible, including deregulation of a small number of items (14 out of a total of 882 items).

schedule to be completed by March 1999. In the ports sector, some improvement in productivity has been achieved, with the average ship turnaround time declining from almost 12 days during 1985–90 to a little under 8 days in 1996/97, but productivity in Indian ports remains below that in other countries in the Asian region. In the roads sector, private finance is being sought for development, while a levy has recently been introduced on petrol and earmarked for the development of national highways. However, in general, while many contracts have been awarded to the private sector, relatively few deals have reached financial closure. As a result the private sector has not thus far made a substantial contribution to expanding infrastructure service coverage and quality.[7]

14. The growth of **industrial production** declined sharply in 1996/97 to 5½ percent following the very strong growth of 12¾ percent in 1995/96 (Chart II.2).[8] It recovered somewhat in 1997/98 to 6½ percent, with growth strengthening during the course of the year, and peaking at around 9 percent (year–on–year) in early 1998. However, over the past three months, production seems to have slowed again, reflecting a weakening in business confidence due, in part, to uncertainties regarding the economic and political situation.[9]

15. **Manufacturing sector** output, which accounts for 79 percent of the industrial production index, grew by 6½ percent in 1997/98, broadly the same as in 1996/97. The output of capital goods was flat in 1997/98, following growth of 9¼ percent in 1996/97 (Chart II.3). This slowdown reflects: the weakening in domestic demand over the past two years; the impact of continued high real corporate borrowing rates; pressures on corporate profitability (see below); and recent uncertainties relating to the election and the direction of economic policy. Output growth in the consumer goods sector picked up slightly in 1997/98 (to 6 percent), although consumer demand was relatively subdued with the weakness in the agricultural sector.

16. **The profitability** of private manufacturing companies weakened substantially during 1996/97.[10] Sales grew by 12¾ percent during the year, compared to 26 percent in 1995/96, and profits before depreciation, interest, and tax (PBDIT) increased by only 6¼ percent compared to 27½ percent in 1995/96. Profits after tax (PAT) actually declined by nearly

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[7]World Bank (1998), *India: 1998 Macroeconomic Update: Reforming for Growth and Poverty Reduction*, June.

[8]The discussion of industrial production is based on the CSO's revised index. See Box II.2 for additional information regarding the revisions to the index.

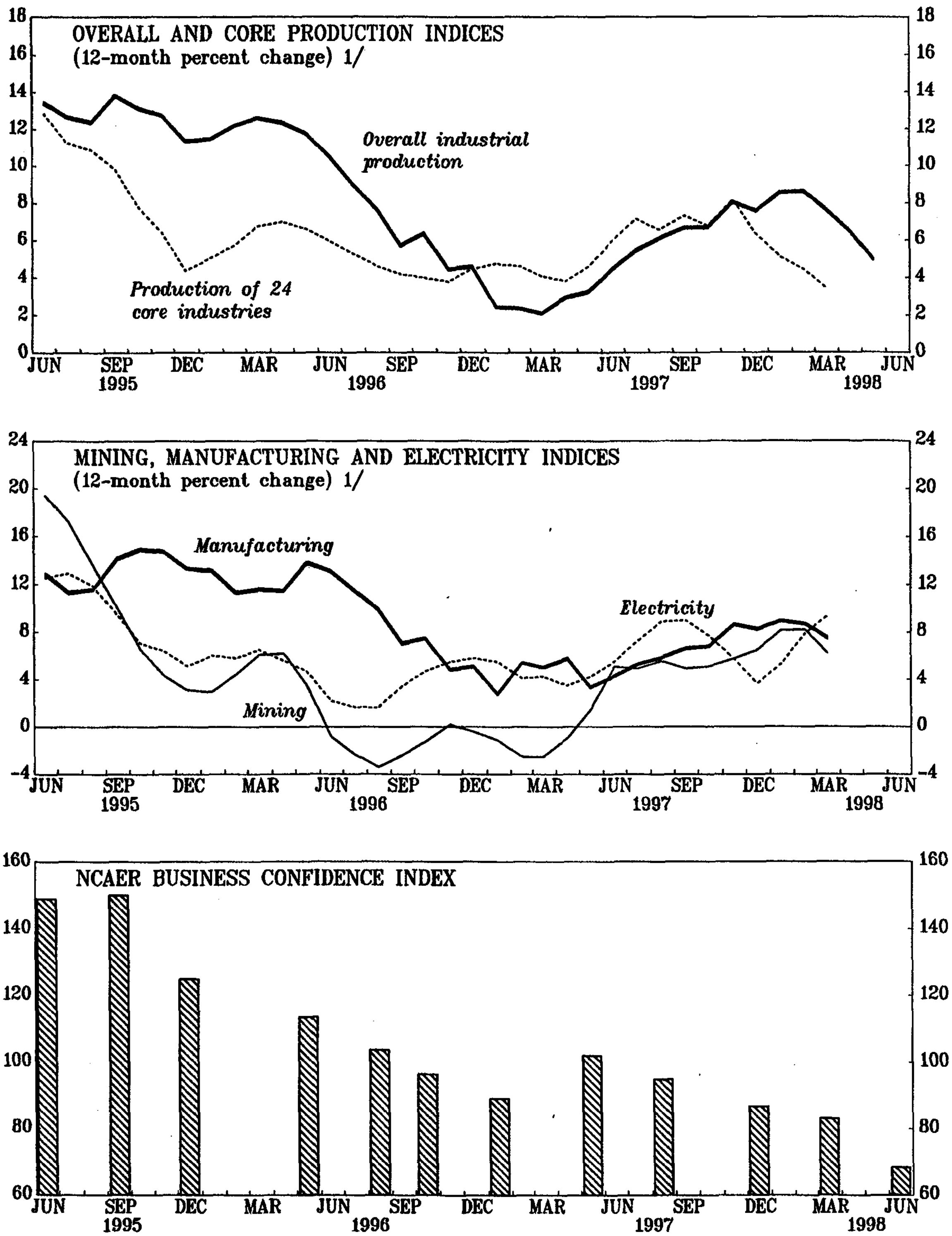
[9]The National Council for Applied Economic Research (NCAER) business confidence index fell sharply in June, but has been on a declining trend since late 1997 (Chart II.2).

[10]Based on a sample of 1,321 manufacturing companies reported by the Centre for Monitoring the Indian Economy (CMIE).

CHART II.2

INDIA

INDUSTRIAL PRODUCTION AND BUSINESS CONFIDENCE INDICATORS, 1995-98



Sources: Data provided by the Indian authorities; and NCAER.

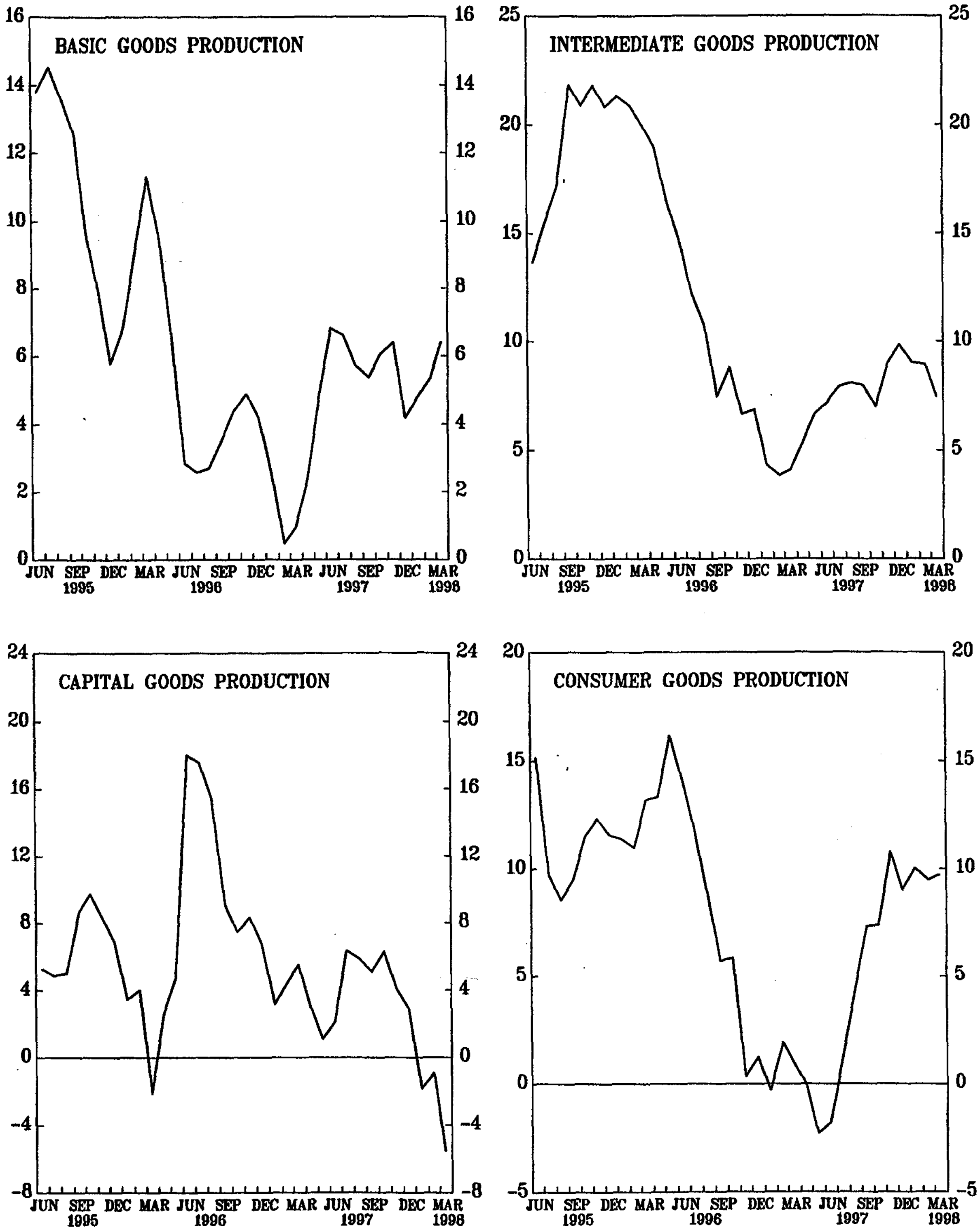
1/ Three-month moving average.

CHART II.3

INDIA

COMPONENTS OF INDUSTRIAL PRODUCTION, 1995-98

(12-month percent change) 1/ 2/



Source: Data provided by the Indian authorities.

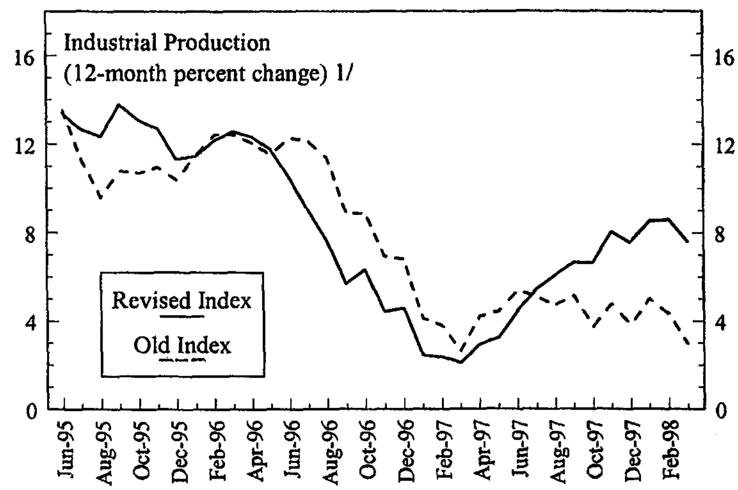
1/ Three-month moving average.
2/ Based on the revised industrial production index. The weights are: basic goods 35.5 percent; intermediate goods 26.4 percent; capital goods 9.7 percent; consumer goods 28.4 percent.

30½ percent compared to 1995/96, partly as a result of higher interest costs in the year. Although sales growth slowed further to only 6½ percent in 1997/98, PBDIT increased by

Box II.2: Revisions to the Index of Industrial Production

The Central Statistical Organization (CSO) has recently released a revised industrial production index. The revised index has been rebased to 1993/94 (from 1980/81), and the weights updated to more accurately reflect the current industrial structure. The coverage of the index has also been expanded by the inclusion of nearly 200 additional items, taking the number of items covered from 352 to 543. The new weights were calculated from estimated gross value added from the 1993/94 national accounts, and include substantial changes from the previous index for some items. These are: cotton textiles (12.3 to 5.5 percent); basic metals and alloys (9.8 to 7.5 percent); transport equipment (6.4 to 4 percent); food products (5.3 to 9.1 percent); and petrochemical and coal products (4 to 5.7 percent).

Revisions to Industrial Production Index



1/ 3-month moving average.

The revised series indicates a significantly different pattern in industrial activity over the past few years (see Chart). In particular, the slowdown in industrial production in 1996/97 is now estimated to have been much sharper, but production is estimated to have recovered somewhat in 1997/98 compared with previous estimates which showed a further decline in growth to only 4¼ percent. The most significant revisions have occurred in the output of the capital goods sector. Rather than growing by a cumulative 47 percent during 1994/95–1995/96, growth of this sector has been revised down to only 10 percent. Also, rather than slowing sharply in 1996/97, growth is estimated to have picked up to 9¼ percent. The revised series is likely to lead to some upward revision to estimated GDP growth in 1997/98.

8½ percent as companies acted to control the growth in their operating expenses. However, PAT rose by only 3¾ percent in 1997/98 as the benefits of lower tax payments during the year following the reductions in corporate taxes in the 1997/98 budget were outweighed by higher interest and depreciation costs.

17. **Agricultural production**, which grew by 8 percent in 1996/97 following the poor harvest in 1995/96, is estimated to have declined by 2 percent in 1997/98. The decline in production in 1997/98, in part, reflects the negative impact of abnormally cool and wet

weather in November and December 1997, which particularly disrupted the normal schedule for wheat sowing. Foodgrain production is estimated to have declined by some 2½ percent, and the production of cotton, oilseeds, and sugarcane are also estimated to have fallen.

18. The **service sector** continued to expand at a brisk rate in 1997/98. Growth of 9 percent was the result of a sharp rise in community, social and personal services (13¾ percent) and further robust expansion in the financial services sector (9½ percent). Over the past five years, growth in the services sector has outstripped that in the industrial sector.

19. On the expenditure side of the accounts, growth in both private and public **consumption** increased slightly in 1996/97, to 5¾ and 5 percent respectively. However, growth in **gross capital formation** declined from 16¾ percent in 1995/96 to 6½ percent in 1996/97, largely on account of slowing investment in machinery and equipment. **Export** volume growth is estimated to have declined to 9 percent from 12¾ percent in 1995/96, while **import** volume growth slowed slightly from 13½ percent to 12 percent.[11] While no estimates are yet available for the expenditure side of the accounts for 1997/98, several observations can be made. The slowdown in growth is likely to be concentrated in private investment given the weakness in the domestic production of capital goods and the fall in the value of capital goods imports. Further, investment intentions filed through Industrial Entrepreneurs Memoranda in 1997/98 also declined in both number and value compared to 1996/97. With little change in the overall fiscal deficit, growth in government consumption is likely to be similar to 1996/97, although growth in private consumption may have picked–up slightly. While in dollar terms the growth of both exports and imports slowed sharply in 1997/98 (exports more than imports), in volume terms the growth of both is estimated to have picked–up to 11¼ and 14¾ percent respectively, indicating that net exports were broadly neutral for growth in 1997/98.

20. **Gross domestic saving** rose for the fourth successive year in 1996/97, reaching 26 percent of GDP. Private saving rose strongly, by 1¼ percent of GDP, to 24¼ percent of GDP, with a strong increase in household saving being partly offset by a decline in corporate saving as growth in company profits slowed substantially during the year. The continuing rise in private saving, which has almost entirely accounted for the 4 percent of GDP increase in domestic saving since 1992/93, has been driven by rising per capita incomes, financial deepening, and demographic trends.[12] Public saving declined to only 2 percent of GDP in 1996/97 reflecting the deterioration in the consolidated public sector budget deficit.

21. **Employment in the organized sector** grew by 1½ percent in 1995/96, the last full year for which data is available. This growth was solely in the private sector, which accounts for around 30 percent of formal employment. Employment in the public sector was broadly

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[11]Staff estimates. See Section V for additional details.

[12]See Mühleisen, M. (1997), "Improving India's Saving Performance, IMF Working Paper, WP/97/4.

unchanged during 1993/94–1995/96. Female employment accounts for a little under 16 percent of formal sector employment, although it has been growing faster than male employment in recent years. As discussed in Box II.3, Indian law largely conforms to international standards on fundamental workers' rights.

B. Inflation

22. Inflationary pressures were relatively subdued during the first half of 1997/98, with **wholesale price (WPI) inflation** declining from 7 percent (year–on–year) in March 1997 to 3¾ percent in August 1997, an eleven year low (Chart II.4). However, inflation has since picked up sharply, to over 8 percent by mid–July (provisional data). These swings in the inflation rate are largely explained by movements in the price of primary products (mainly food items), which are significantly influenced by domestic supply factors. A record *rabi* harvest in April 1997 saw inflation in primary products decline from over 10 percent in March 1997 to only 1¼ percent in November 1997, but with tightening supply conditions for some important agricultural commodities, inflation in primary products had risen to 13½ percent by mid–July. Administered prices also had a significant impact on WPI inflation in mid–1997. First, inflation in administered goods (mainly energy inputs) declined sharply in July and August as the price increases implemented in July 1996 fell out of the calculation, but then picked up again with the increase in the price of petroleum and electricity in September 1997.

23. The overall WPI contains a significant proportion of administered prices and items subject to temporary supply fluctuations. Therefore, the price index for **manufactured goods**, which account for 57 percent of the WPI index, may be a better measure of "underlying" or core inflationary pressures.[13] Inflation by this measure remained much more stable during 1997/98, averaging 4 percent. This reflected the subdued domestic demand conditions and the greater competitive pressures on domestic industry following the opening up of the economy to foreign competition since the early 1990s. Further, the impact of the depreciation of the rupee since mid–1997 has so far been largely offset by the decline in oil prices. However, more recently, manufactured price inflation has also picked–up, reaching 4¾ percent by mid–July.

24. **Consumer price (CPI) inflation** (for industrial workers), which gives a greater weight to food items (57 percent compared to only 27½ percent in the WPI), has remained above the WPI measure during the course of the year. (See Box II.4 for a more detailed assessment of the WPI and CPI measures of inflation.) However, it has followed a broadly similar trend, declining from 10 percent in March 1997 to 4¾ percent in August, but rising sharply to 12½ percent in June 1998.

[13]Of course, inflation expectations and pressures on wages are more likely to be affected by headline inflation.

Box II.3. The Status of International Core Labor Standards in the Indian Workforce

A recent report by the International Confederation of Free Trade Unions (ICFTU) found that Indian law largely conforms to the *fundamental workers' rights* guaranteed under the Singapore WTO Ministerial Declaration. The report notes, however, that India has at present partly or fully endorsed three of the International Labor Organization (ILO) conventions on core labor standards—namely, discrimination (employment and occupation), remuneration, and forced labor. The other conventions yet to be ratified are: the freedom of association, the freedom of collective bargaining, and a minimum age for workers.

Freedom of association is guaranteed by the Indian Constitution even though India has not ratified the main ILO Conventions on trade union rights. Its application is limited mainly to the *formal sector* (with certain exceptions for civil servants), where trade unions often exercise the right to strike, and employers are prohibited from taking action against their striking employees. ***Collective bargaining*** is usually the means of setting wages and settling disputes in the organized industrial sector. By contrast, trade union membership is relatively uncommon in the country's vast, but unorganized, *informal sector.* As a result, labor in the informal sector constitutes the lower end of the workforce in wages, employment security and working conditions, often working for less than the minimum wage set by the state government.

With regard to ***discrimination,*** India has ratified both ILO Conventions that address the issue. Female employment accounts for a little under 16 percent of formal sector employment, although it has been growing faster than male employment in recent years. However, 80 percent of working women are found in the informal sector, indicating a lack of opportunities in formal sector work. The Equal Remuneration Act of 1976 guarantees equal pay for men and women, although the ***remuneration*** for women workers presently lags behind that of men. Women often work in seasonal and causal sectors where, unlike their male counterparts, they are not covered by social security legislation. Some *rural tribes* and *low castes* have also faced disadvantages in the labor market. The government has attempted to remedy this situation with various affirmative action programs in employment and other benefits with some success.

Forced labor is prohibited by law, and the Supreme Court has stepped up its monitoring in this area. Regarding the ***minimum age*** for workers, the 1991 Census put the number of child workers at over 11 million, with more than 80 percent engaged in agriculture and allied employment. The Child Labor Prohibition Act of 1986 restricts the employment of children in selected industries, but otherwise permits children of any age to work in agriculture, small–scale industries and the service sector. The government has recently stepped up efforts to tackle the problem of child labor—a major program introduced in 1994 attempts to rehabilitate children working in hazardous occupations through special schools that provide education, vocational training, nutrition and health–care.

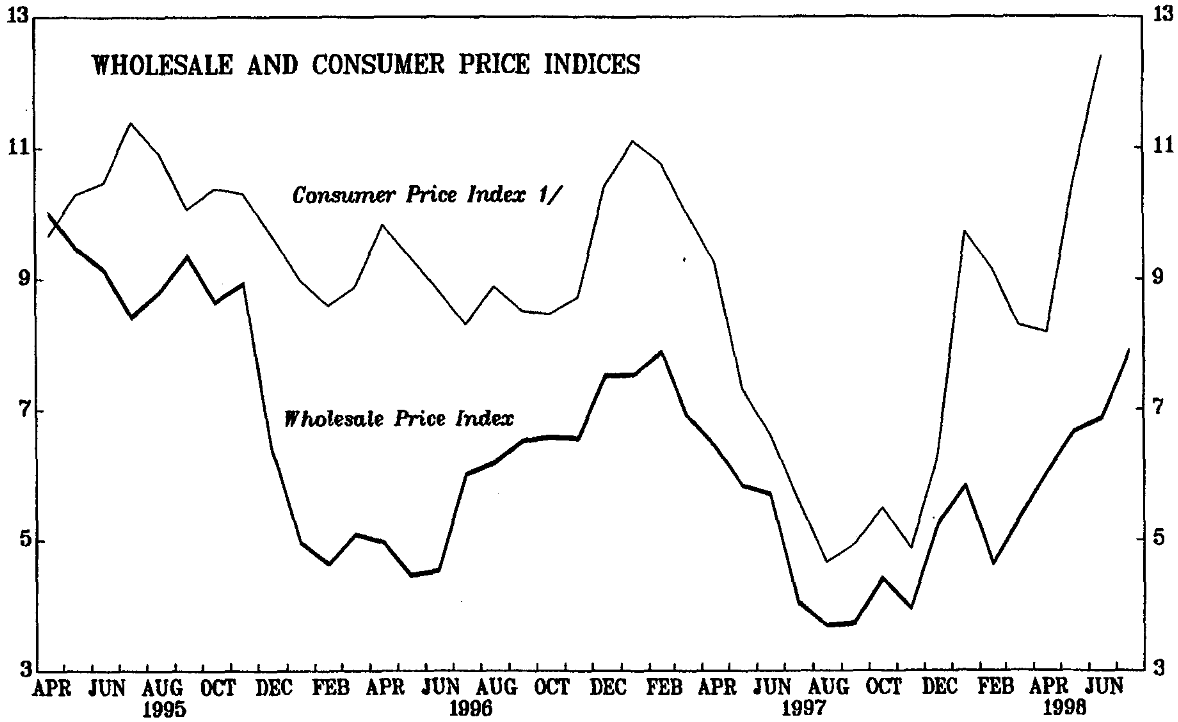
Sources: International Confederation of Free Trade Unions, Report on "Internationally–Recognized Core Labor Standards in India," March, 1998; World Bank, Report on "Achievements and Challenges in Reducing Poverty in India," May 1997; and Government of India, Ministry of Labor, Annual Report 1997–98 Ministry of Labor.

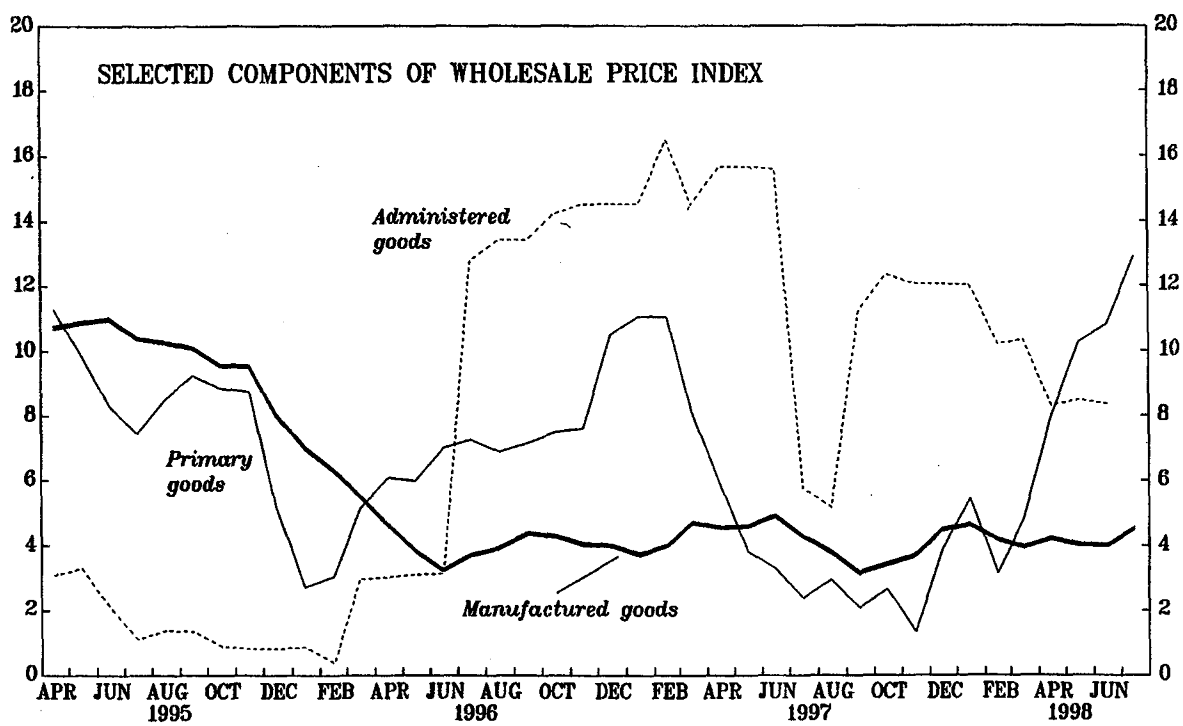
CHART II.4

INDIA

INFLATION INDICATORS, 1995-98

(Year-on-year percent change)





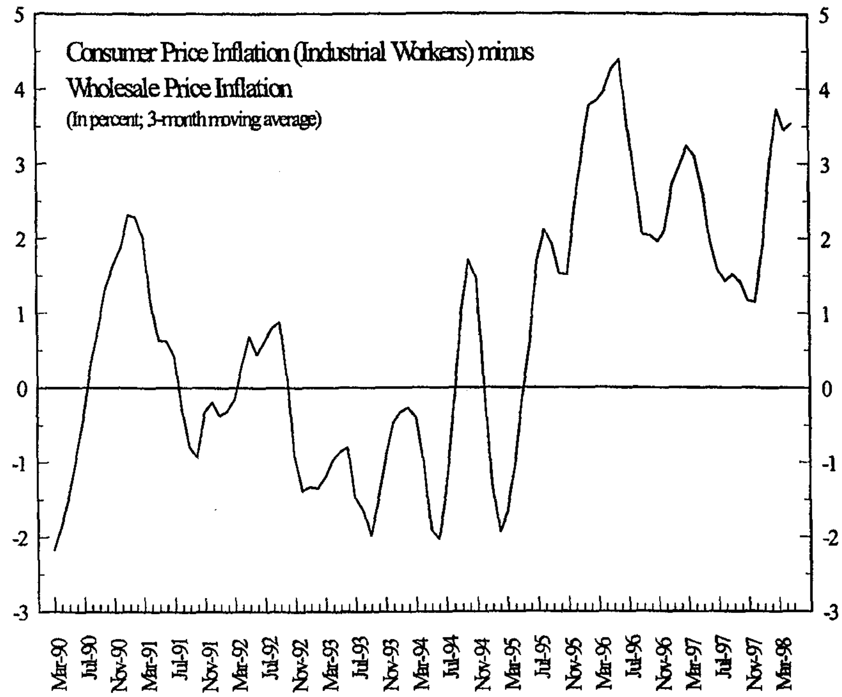
Source: Data provided by the Indian authorities.

1/ For industrial workers.

Box II.4. Methods of Measuring Inflation in the Indian Economy

The Wholesale Price Index (WPI) is generally viewed as the preferred measure of prices in India rather than the Consumer Price Index (CPI), mainly because: (i) WPI estimates are available on a weekly basis and are more timely than the monthly CPI estimates (which are constructed separately for three consumer sub–groups: Industrial Workers, Urban Non–Manual Employees, and Agricultural Laborers); and (ii) the WPI has an economy–wide coverage of price movements. Over many years, the two measures of prices have tracked inflation developments quite similarly. However, since April 1995, the CPI–based rate of inflation has consistently exceeded the WPI–based rate (see chart). This has prompted suggestions that a WPI–based inflation rate has become inadequate in capturing the impact of retail price changes on the average consumer, and that the CPI–based rate should be used instead for this purpose.

The discrepancy in the two measures stems from the different compositions of the respective baskets. The WPI basket is larger and more diverse than the CPI basket, capturing a wider range of goods in the economy, but representing to a lesser extent the effect of retail price changes. For instance, the WPI comprises primary articles, which include minerals; similarly, manufactured goods, with a weight of 57 percent in the WPI basket, include chemical products, basic metals and alloys. These items rarely feature in the shopping basket of a contemporary sample household. Moreover, the WPI weighs food articles at 27½ percent, even though food and basic groceries, electricity and fuel comprise well over one–half of an average household's actual monthly expenditure. In contrast, the CPI gives a higher weight of 57 percent to food articles, capturing more closely the impact of price pressures on the consumer.



The weights for certain expenditure items in both the wholesale and consumer baskets have become outdated for present use—in the WPI basket, obsolete 'gramophone records' have more weight than ceiling fans (0.19 percent to 0.17 percent), as do fruits compared to vegetables or petrol (2.8 percent to 1.3 percent and 0.81 percent respectively), and fountain pens compared to electricity for domestic use (0.41 percent to 0.36 percent). The CPI basket contains some equally outmoded items—almost extinct poplin shirts, "cinema" as televisions become pervasive, and does not include cars. At the same time, however, the CPI series is constructed at the retail level for baskets of final goods and services consumed directly by the consumer. Consequently, the CPI–based inflation rate should capture more accurately the impact of price changes on the consumer, including changes in margin at the retail end.

In view of the limitations of both indices, it has become increasingly important to improve price statistics to provide more reliable guidance for macroeconomic policy decisions.

Sources: Reserve Bank of India: Annual Report 1996–97; and "Inflation and its Measures", Sengupta and Endow: *Economic and Political Weekly,* March 14, 1998.

25. **Inflation expectations**, as measured by Consensus Economics, have edged up in recent months along with actual inflation and as of June 1998 stood at 7½ percent and 9 percent for the WPI and CPI respectively (for 1998/99). No measure of consumer inflation expectations is available in India.

C. Poverty

26. According to official estimates, 36 percent of the Indian population lived below the poverty line in 1993/94 (the latest year for which estimates are available), down from 55 percent in 1973/74. Poverty in rural areas, at 37¼ percent of population, was higher than in urban areas (32½ percent of population). The real wage of unskilled agricultural workers, which is an alternative poverty indicator, increased by about 2 percent between 1993/94 and 1996/97. However, the recent strong rise in the price of primary products is likely to fall disproportionally on the poor (given the higher percentage of their incomes that go on basic items), although government subsidies through the Public Distribution System will limit the impact (Box II.5).

III. Fiscal Developments

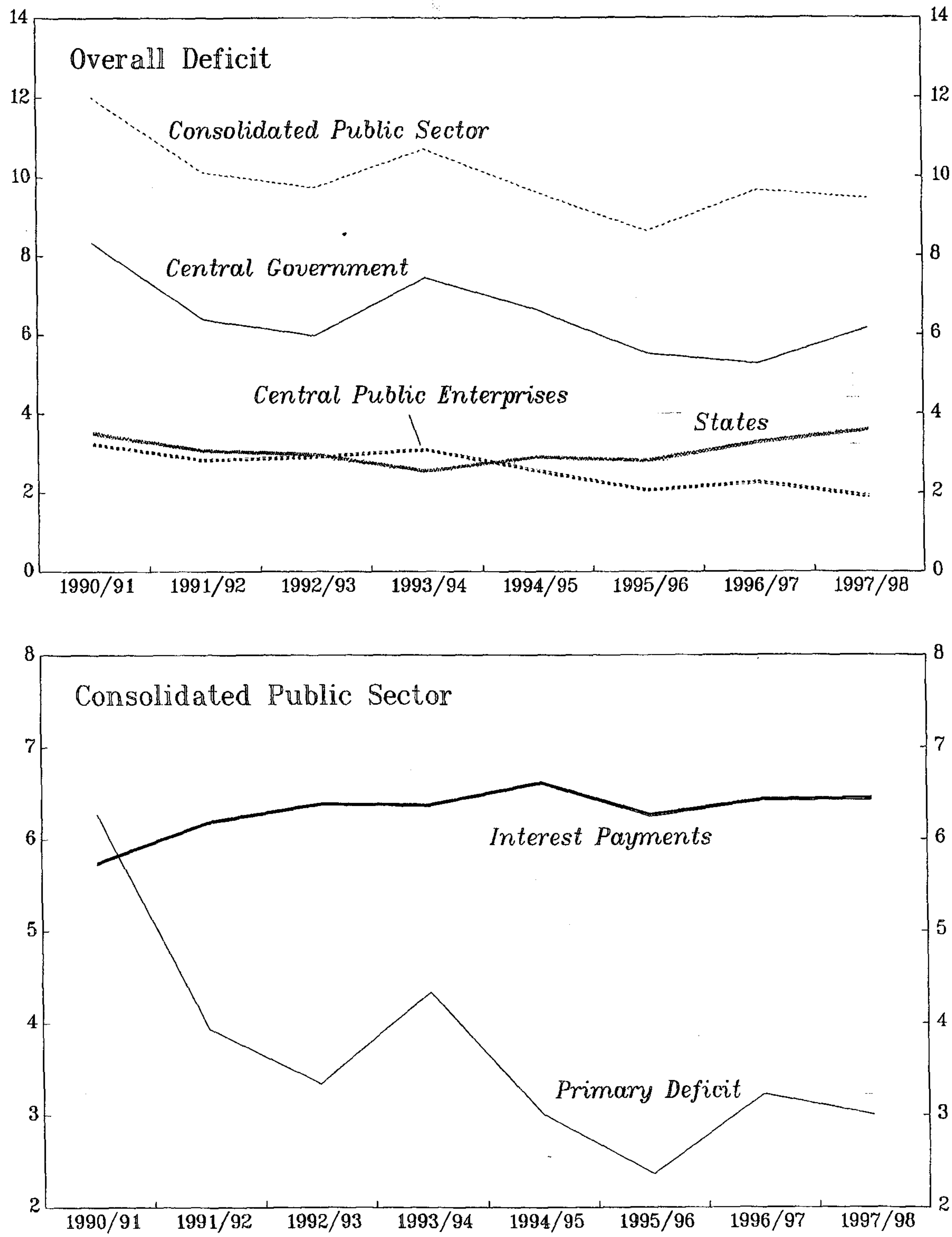
27. The finances of both central and state governments deteriorated in 1997/98. The central government deficit exceeded the budget target by more than one percent of GDP as expenditure increases from public sector wage adjustments and essential infrastructure investment were not matched by a corresponding rise in revenues (Charts III.1 and III.2, Table III.1). Therefore, despite a strong package of petroleum sector reforms—which significantly improved the financial position of the Oil Coordination Committee (OCC)—the overall public sector deficit improved by only ¼ percentage point to remain at a high 9½ percent of GDP. The 1998/99 budget projects an improvement of ¼ percentage point in the central government deficit (excluding divestment receipts), and progress toward further consolidation of India's public finances is thus expected to remain limited.

CHART III.1

INDIA

PUBLIC SECTOR ACCOUNTS, 1990/91 - 1997/98

(In percent of GDP)



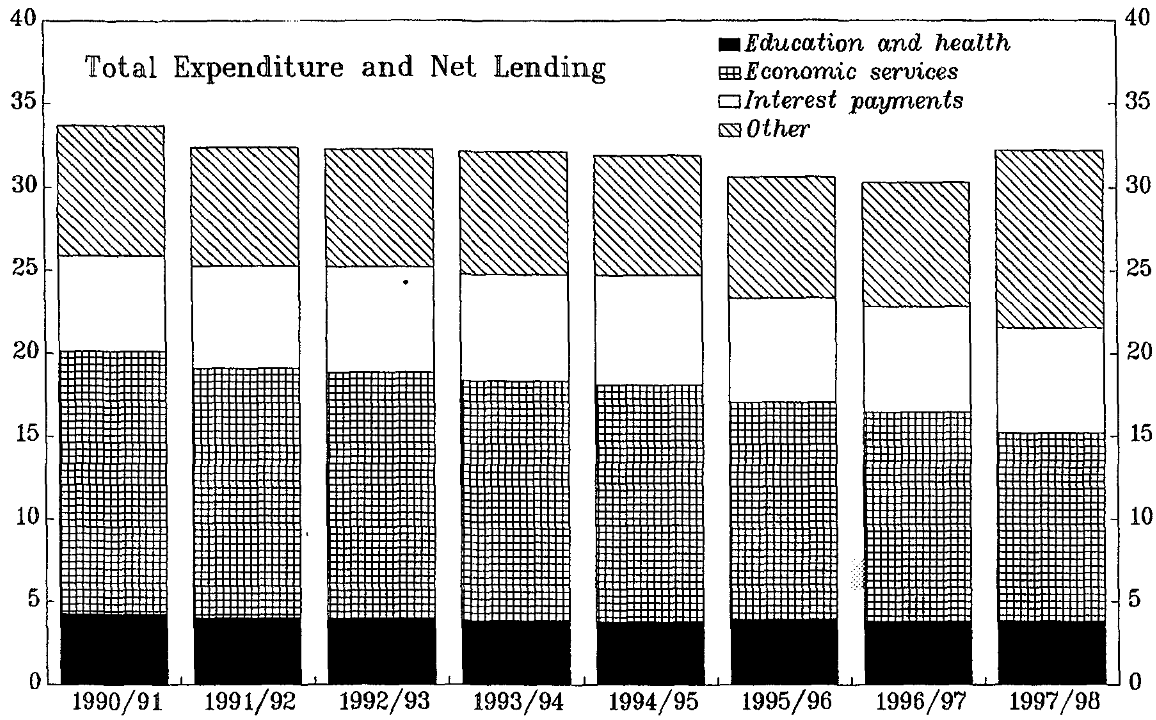
Sources: Data provided by the Indian authorities; and staff estimates.

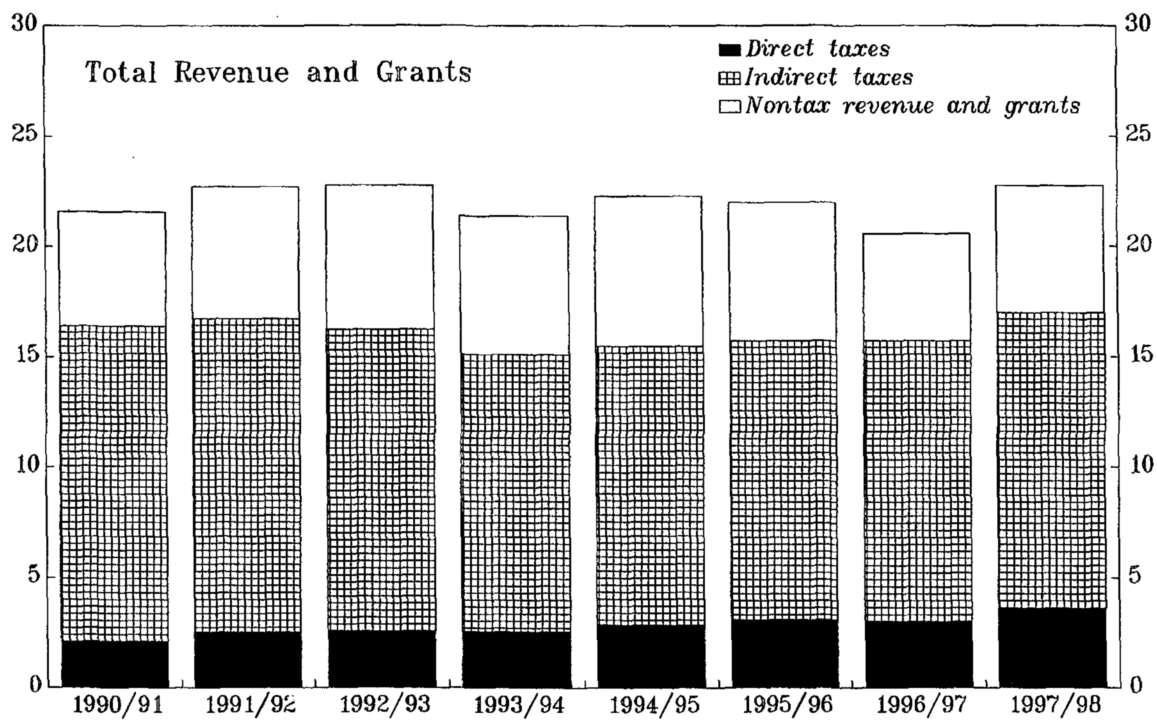
CHART III.2

INDIA

PUBLIC SECTOR REVENUE AND EXPENDITURE, 1990/91 - 1997/98

(In percent of GDP)





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

Box II.5. The Targeted Public Distribution System

The Public Distribution System (PDS) is an important element of the governm strategy for poverty alleviation. To ensure food security for the poor, the government procures and supplies foodgrains, namely wheat and rice, as well as sugar, imported e oils and kerosene to the state governments and union territories (UTs) for distribution. states/UTs distribute additional items through the PDS outlets. Procurement prices are on support prices announced by the Department of Agriculture and Co–operation.

The PDS has been criticized in the past for its urban bias and its failure to effe serve the poorer sections of the population. In an attempt to address these concerns th Targeted Public Distribution System (TPDS) was introduced in place of the PDS in Ju 1997. Under this scheme, a two–tier subsidized pricing system has been introduced to the poor: for those families falling below the officially estimated poverty line (BPL fa the government is committed to making supplies available to the states to meet the requirement of foodgrains at the scale of 10 kg. per month per family at highly subsid prices; for those families above the poverty line (APL families), subsidized rates will continue. The scheme is now in operation in almost all states/UTs. In recent years, fo subsidies have risen as the issue prices have not kept pace with the increased economi of supplying the food. In 1997/98, the central government supplied wheat and rice to the states at following Central Issue Prices:

Table: Prices Through the TPDS

Central Issue Prices: Rs./kg

	Wheat	Rice		
		Superfine	Fine	Common
Below poverty line	2.50	...	3.50	3.50
Above poverty line	4.50	7.50	6.50	...
Economic costs[1]	7.79	...	9.21[2]	...

Source: Economic Survey, 1997/98.

[1]Includes cost of procurement, storage, distribution, and wastage.
[2]Average for the different grades of rice.

Table III.1. India: Public Sector Operations

(In percent of GDP)

	1990/91	1995/96	1996/97	Rev. Est. 1997/98	Budget 1998/99
Consolidated public sector 1/					
Revenue and grants	21.7	22.0	20.6	22.7	...
Expenditure and net lending	33.7	30.6	30.3	32.2	...
Overall balance	–12.0	–8.6	–9.7	–9.4	...
Primary balance	–6.3	–2.4	–3.2	–3.0	...
Central government balance	–8.3	–5.5	–5.3	–6.2	–5.9
Oil Coordination Committee balance	–0.2	–0.2	–0.8	0.1	...
States' balance	–3.5	–2.8	–3.3	–3.6	...
Central public enterprises' balance	–3.2	–2.1	–2.3	–1.9	–2.0

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

1/ The consolidated public sector comprises the operations of the central government, the balance of the Oil Coordination Committee, the state governments and Union Territories, and the central public enterprises. The overall balance is less than the sum of its components due to intrasector loans. Divestment receipts are treated as domestic nonbank financing rather than revenue.

A. Fiscal Performance in 1997/98

28. The **central government budget for 1997/98** aimed to reduce the fiscal deficit to 4.9 percent of GDP—which would have been the lowest level in over two decades—while substantially reducing income tax rates and customs duties (Table III.2).[14] Despite an expected revenue loss of around ¾ percent of GDP from the tax cuts, tax revenue was envisaged to improve relative to GDP, based on faster growth of the taxed economy, improved tax administration, and better compliance. To reduce widespread tax evasion, the government introduced the "Voluntary Disclosure of Income Scheme" (VDIS), a one–off tax amnesty scheme for reporting black money. The budget also provided for some increase on the expenditure side, above all through allocating Rs 113 billion (0.8 percent of GDP) for the

[14]The government's official budget deficit target was 4½ percent of GDP. The staff's deficit numbers are slightly higher because receipts from the divestment of public sector enterprises are treated as a financing item rather than nontax revenue.

Table III.2. India: Central Government Operations, 1993/94-1998/99

	1993/94	1994/95	1995/96	1996/97	Budget 1997/98	Rev. Est. 1997/98	Budget 1998/99
				(In billions of rupees)			
Total revenue and grants	796.5	960.8	1,159.4	1,317.7	1,593.7	1,457.7	1,703.0
Net tax revenue	534.5	674.5	819.4	937.0	1,133.9	991.6	1,168.6
Gross tax revenue	757.4	922.9	1,112.4	1,287.6	1,536.5	1,427.2	1,577.1
o/w: VDIS 1/	...	...	...	...	...	100.5	...
Less: States' share	222.4	248.4	293.0	350.6	402.5	435.6	408.5
Non-tax revenue	252.1	275.9	328.7	368.7	448.8	454.5	523.9
Grants	9.9	10.4	11.4	11.9	11.0	11.7	10.5
Total expenditure and net lending	1,398.6	1,593.9	1,775.8	1,989.5	2,296.2	2,330.3	2,663.2
Current expenditure	1,123.7	1,271.1	1,456.7	1,644.2	1,896.3	1,894.6	2,183.7
o/w: Major subsidies	107.6	115.3	124.3	136.6	171.3	183.7	194.8
Interest payments	367.4	440.6	500.5	594.8	680.0	657.0	750.0
Wages and salaries (excl. military)	145.7	159.0	180.9	190.5	237.7	275.4	293.4
Capital expenditure and net lending	274.9	322.8	319.1	345.3	399.9	435.7	479.6
Overall balance	-602.1	-633.1	-616.4	-671.9	-702.5	-872.5	-960.2
Financing	602.1	633.1	616.4	671.9	702.5	872.5	960.2
External (net)	50.7	51.5	3.2	29.9	24.3	12.0	23.4
Domestic (net)	551.4	581.7	613.2	642.0	678.2	860.5	936.9
o/w: Divestment receipts	-0.5	56.1	14.0	4.6	48.0	9.1	50.0
				(In percent of GDP)			
Total revenue and grants	9.8	10.1	10.4	10.3	11.1	10.3	10.5
Total expenditure and net lending	17.3	16.7	15.9	15.6	15.9	16.5	16.4
Current expenditure	13.9	13.3	13.0	12.9	13.2	13.4	13.4
o/w: Major subsidies	1.3	1.2	1.1	1.1	1.2	1.3	1.2
Wages and salaries (excl. military)	1.8	1.7	1.6	1.5	1.7	1.9	1.8
Interest payments	4.5	4.6	4.5	4.7	4.7	4.6	4.6
Capital expenditure and net lending	3.4	3.4	2.9	2.7	2.8	3.1	3.0
Overall balance	-7.4	-6.6	-5.5	-5.3	-4.9	-6.2	-5.9
Memorandum items							
Military expenditure	2.7	2.4	2.4	2.3	2.5	2.6	2.5
Primary balance	-2.9	-2.0	-1.0	-0.6	-0.2	-1.5	-1.3
OCC balance (Rs billion) 2/	-1.5	12.8	-19.6	-97.8	-35.0	15.0	74.0
Overall balance (including OCC)	-7.5	-6.5	-5.7	-6.0	-5.1	-6.1	-5.5
Overall balance (with divestment receipts treated as non-tax revenue)	-7.4	-6.1	-5.4	-5.2	-4.5	-6.1	-5.6
Consolidated public sector balance 3/	-10.7	-9.6	-8.6	-9.7	-8.7	-9.4	-9.2
Nominal GDP (Rs billion) 4/	8,097.7	9,536.8	11,189.6	12,769.7	14,402.3	14,154.9	16,254.5

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

1/ The Voluntary Disclosure of Income Scheme (VDIS) was a one-off tax amnesty scheme in 1997/98.
2/ Staff projections for 1997/98 and 1998/99.
3/ The consolidated public sector comprises the central government (incl. OCC), state governments, and central public enterprises.
4/ The 1998/99 GDP figure is based on the authorities' projection of 15 percent nominal growth. The staff's assumption is Rs 15,775 billion.

cost of implementing the recommendations of the Fifth Pay Commission, including through retroactive pay adjustments dating back to 1996.[15]

29. The budget target was considerably exceeded, however, as the **fiscal deficit** for 1997/98 increased to 6.2 percent of GDP—partly a consequence of large **tax revenue** shortfalls (Table III.3).[16] Customs revenues were depressed by lower than expected import growth (including a substantial decline in oil imports) and a general shift towards non–dutiable imports. Similarly, excise revenues were affected by a sharp slowdown in industrial growth. The revenue shortfall in direct taxes was smaller, mainly because corporate profitability held up in some sectors and administrative measures to widen the tax net began to take hold (including a widening of tax deduction at source, and a tax filing requirement for persons meeting certain wealth indicators). There are indications, however, that actual direct tax collections will be less than shown by the revised estimates, partly because of a shift in tax payments from regular tax categories to the VDIS. The VDIS itself was relatively successful, with revenues from declared incomes reaching Rs 100 billion—compared to expectations of around Rs 20–30 billion, which were however not included in the budget (Box III.1).

30. There was also a substantial overrun (0.6 percent of GDP) on the **expenditure side**, related to a sharp increase in wage payments and a pickup in collections under the small savings scheme. First, the impact of the Pay Commission award was substantially larger than expected after the central government ceded to union demands for higher wage increases; at the same time certain compensating measures envisaged by the Commission were shelved. The cost of implementing the wage agreement thus reached Rs 185 billion, or 0.5 percent of GDP more than budgeted. Second, states' efforts to boost small savings collections met with considerably more success than anticipated, entailing additional net lending from the center to the states in the order of 0.3 percent of GDP.[17] To compensate for the higher expenditure, the government announced a mid–term fiscal package in September 1997, including a five percent expenditure cut in both plan and nonplan spending. As a result, some savings were achieved in plan spending, although the cut was withdrawn in January 1998 in response to buoyant VDIS revenues.

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[15]The Pay Commission is a constitutionally mandated body set up to make non–binding recommendations about every five years primarily on the central government's pay scales, which are otherwise adjusted only for cost–of–living changes. For a detailed discussion of the Commission's recommendations see *India – Recent Economic Developments* (IMF Staff Country Report No. 97/73, September 1997).

[16]For a detailed discussion of revenue issues see the paper on "Tax Revenue Performance in the Post–Reform Period" in the accompanying *Selected Issues* volume.

[17]The small savings scheme is administered by the center, which on–lends about two thirds of collected amounts to the states.

Box III.1. The Voluntary Disclosure of Income Scheme (VDIS)

There is widespread consensus that India has a large underground economy, although estimates of its magnitu differ. Recent indications are that official GDP could be underestimated by around 20 percent, but other estimates have reached up to 50 percent or more.[1] There have been various attempts by the authorities to brir "black money" into the tax net, including through earlier voluntary disclosure and amnesty schemes.

Design of the scheme. The 1997/98 VDIS was intended to mobilize tax resources by providing incentives tc report previously undeclared income. The scheme was introduced in the 1997/98 budget and ended on December 31, 1997. Its major components were the following:

- A person or corporate entity could declare any income that had not been taxed in previous years (including 1997/98), irrespective of the nature or current location of the funds.

- The tax payable on the income declared under the scheme was 35 percent in the case of corporates, and 30 percent for individuals, i.e., at current 1997/98 tax rates that were significantly lower than in earlier years. Interest and tax penalties were waived.

- The scheme provided for immunity from any action under the income tax, wealth tax, or foreign exchange regulation acts. The declarations under the scheme were to be treated confidential and cou not to be used by the tax authorities in the future. The authorities also announced that there would be no further amnesty schemes, and that tax enforcement henceforth would be strengthened.

Revenue. The scheme was more successful than anticipated, partly owing to an intense public relations campaign. Whereas the authorities had initially expected some Rs 20–30 billion in revenue, disclosed income amounted to Rs 330 billion, yielding Rs 100.5 billion in revenue (of which Rs 78 billion accrued to the states)

India: Major Tax Amnesty and Income Disclosure Schemes

Scheme	Year	Cases ('000)	Income disclosed (Rs billion)	Tax yield (Rs billion)	Tax yield (% of GDP)
VDS (Tyagi Scheme)	1951	21	0.70	0.11	.12
VDS (Sixty-Forty Scheme)	1965	2	0.52	0.30	.11
VDS (Block Scheme)	1965	114	1.45	0.19	.07
VDS	1976	259	15.88	2.56	.30
Special Bearer Bonds	1981	...	9.63	...	...
Amnesty Scheme	1985	2,000	107.78	7.00	.27
Foreign Remittance Scheme/IDB	1991	...	67.60	...	...
VDIS	1997	466	333.00	100.50	.71

Assessment. The VDIS has been the most successful among India's amnesty and income disclosure schemes, both in absolute numbers as well as relative to GDP (see table), partly owing to relatively generous incentives The effective tax rate on declared income was much lower than the nominal rate of around 30 percent would suggest. Most of the declared income was held in the form of assets (particularly gold). These assets were valued at their purchase price (or, in the case of gold, at 1987 prices), which does not account for their substantive appreciation in value in recent years. Some tax payers have thus been estimated to reduce their effective tax rate to below 10 percent (including by pre-dating the time of purchase of an asset), and in some cases as low as 2–3 percent. The amnesty extended under the VDIS thus provided a good opportunity to legal untaxed income at minimum cost. Respondents, however, are henceforth required to file taxes on an annual basis, and a key government objective is to bring them permanently under the tax net.

[1]See, e.g., S.N. Acharya et al. (1986), *Aspects of the Black Economy in India*, National Institute for Public Finance and Policy, New Delhi.

Table III.3. India: Central Government Tax Revenue

(In percent of GDP)

	1990/91	1996/97	1997/98 Budget	1997/98 Rev. Est.	Budget 1998/99
Gross tax revenue	10.8	10.1	10.7	10.1	9.7
Corporate tax	1.0	1.5	1.5	1.5	1.6
Personal income tax	1.0	1.4	1.5	1.3	1.3
Excise taxes	4.6	3.5	3.6	3.4	3.5
Customs revenue	3.9	3.4	3.6	2.9	3.0
Other taxes	0.3	0.3	0.4	0.3	0.3
VDIS	...	...	...	0.7	...
Less: States share	2.7	2.7	2.8	3.1	2.5
Net tax revenue	8.0	7.3	7.9	7.0	7.2

Source: Union budget documents.

31. Based on partial data, the **deficit of the state governments** is estimated to have increased from 3.3 percent of GDP in 1996/97 to 3.6 percent of GDP in 1997/98.[18] Although state tax revenues have increased somewhat compared to earlier years, mainly reflecting efforts to improve sales tax collection, state expenditures have also come under increased pressure in two major areas. First, wages are generally adjusted in line with the central Pay Commission award, and some states have already followed suit.[19] Second, to offset deteriorating budgetary conditions, state developmental expenditure was substantially cut back in recent years, affecting mainly investment in basic infrastructure such as power,

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[18]Staff estimates for 1997/98 are based on revised estimates from 20 states, adjusted for net transfers and interest payments from and to the center.

[19]States follow different timetables for wage negotiations, and the impact of the Pay Commission recommendations is thus likely to spread over a period of at least two years. The wage increase does not necessarily translate fully into higher cash expenditure, as some states award retroactive adjustments by contributing to employee provident funds (which are primarily used to finance state deficits).

irrigation, and transportation networks.[20] These cuts are in urgent need of being reversed, and a number of states have reportedly begun to step up infrastructure investment.

32. The **deficit of central public enterprises** fell slightly to 1.9 percent of GDP in 1997/98 (Table III.4). The fall partly reflects a continued decline in investment spending by public enterprises, and partly an improvement in the finances of major oil companies following the petroleum sector reforms in September 1997 (Box III.2). Combined with lower international crude prices, the reforms brought the financial position of the **Oil Coordination Committee** back into surplus (see Table III.1). Based on recent trends, the OCC would therefore be in a position to repay outstanding debts to the central government within the next two years.

Table III.4. India: Operations of Central Public Enterprises

(In percent of GDP)

	1990/91	1995/96	1996/97	Rev. Est. 1997/98	Budget 1998/99
Net internal resources	2.0	2.6	2.0	2.0	2.3
Plan expenditure	5.2	4.7	4.2	3.9	4.4
Overall balance	–3.2	–2.1	–2.3	–1.9	–2.0

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

B. Central Government Budget for 1998/99

33. The **central government budget for 1998/99** has been designed to maintain domestic demand and provide a boost to growth in the short term, while aiming at a reduction in the fiscal deficit by 0.3 percentage points to 5.9 percent of GDP (excluding divestment receipts). This reduction is to be achieved through a modest increase in tax revenue, while a decline in net lending (owing to a projected decline in small savings collections) would provide room for higher capital expenditure. The thrust toward higher growth is to come from a 30 percent increase in plan spending, particularly on infrastructure. The bulk of this would be carried out by public enterprises, however, and would be conditional on the capacity of public enterprises to generate the projected increase in own resources (see Table III.4). Interest payments are projected to remain stable around 4.6 percent of GDP, and

[20]These issues are discussed in detail in Chapter III of *India – Selected Issues* (IMF Staff Country Report No. 97/74, September 1997).

Box III.2. Petroleum Sector Reforms

India's oil sector is dominated by large public sector enterprises holding monopoly positions for exploration, import, and distribution of oil products. Practically all products were under an administrative pricing mechanism that ensured the cross–subsidization of essential products of mass consumption (diesel, kerosene, LPG). The Oil Coordination Committee (OCC) functioned as a clearing center that provided state–owned oil companies with a fixed rate of return on capital.[1] In 1996/97 and early 1997/98, however, falling sales revenues led the OCC to accumulate substantial payment arrears vis–à–vis the oil companies.

The September 1997 package. As a result of the arrears, many oil companies were exhausting their ability to borrow funds, and the Indian Oil Corporation, the conduit for imports, was projected to exhaust its external commercial borrowing ceiling of US$ 3.5 billion by November. The government therefore decided to clear the OCC's arrears by issuing government bonds worth Rs 180 billion directly to the oil companies (at an interest rate of 10½ percent) so as to strengthen their balance sheets without widening the (cash–based) fiscal deficit. The government also announced accompanying measures to restore the financial viability of the administered pricing system:

- The price of diesel was increased by 26 percent, while cooking gas and petrol prices were raised by 5 and 12 percent, respectively.
- The subsidy on diesel was discontinued, implying that diesel prices were to be adjusted monthly to ensure parity with import prices. The subsidy on LPG was to be withdrawn gradually over two years, and the subsidy on natural gas for fertilizer plants was to be moved to the budget. Hydrocarbon fuels for industrial consumers also were to be supplied at import parity prices.

Initially, the OCC surplus generated by these measures was to be used to redeem the bonds over a period of five to seven years. Eventually, however, a bond issue did not take place until March 1998 when the decline in international oil prices had resulted in a much improved financial position of the OCC, notwithstanding the depreciation of the rupee. The arrears had already fallen to Rs 130 billion at that time, and—under current conditions—the issued bonds are therefore likely to be fully redeemed within the next 2–3 years.

Phaseout of the administered price mechanism (APM). Following the recommendations of two expert groups, the government established a timetable to phase out the APM within four years. In the first phase, which took effect on April 1, 1998, the retention price system for refineries was replaced by import parity pricing; and payments to crude producers were fixed at 75 percent of import prices, replacing the earlier cost–plus formula. Trade restrictions were lifted on all petroleum products except crude, gasoline, diesel, liquid gas, and aviation fuel, supplemented by liberalizations in the setup and operation of refineries, that culminated in the decision to fully delicense the refinery sector in July 1998. The timetable for 1998/99 also includes price increases for kerosene and LPG, which have however not yet been implemented (in part because the subsidy burden has declined with falling international prices).

Further steps include the gradual phasing–in of import parity pricing for crude oil and other products remaining under the APM (LPG, gasoline, kerosene, and aviation fuel); and a restructuring of import tariffs and excise duties that would bring price structures in line with international markets, while at the same time cushioning the impact on tax revenue. The expert group proposed the following duty structure:

Customs tariffs (in percent)	1996/97	1999/00	2001/02
Crude	27	10	0
Diesel	32	25	15

Excise duties (in percent)	1996/97	1999/00	2001/02
LPG/Kerosene	10	10	10
Diesel	15	15	15
Gasoline	20	25	165
Aviation fuel	15	15	40

The 1998/99 budget has begun to implement this structure by lowering the import tariff on crude oil. However, an offsetting increase in the excise duty on gasoline has been shifted to the OCC to avoid a large price increase.

[1]OCC operations are discussed in *India—Selected Issues*, (IMF Staff Country Report No. 97/74, September 1997).

the primary deficit of the central government would thus fall to 1.3 percent of GDP (see Table III.2; Chart III.3).

34. The projected rise in **revenues** partly relies on steps to increase the tax base, but also to some extent on higher excise and tariff rates (see Table III.3):

- Although direct tax rates were left unchanged, **direct tax revenue** is expected to rise slightly in relation to GDP. The budget granted additional tax incentives, mainly for investment in the power sector and housing, but the government expects to profit from improved tax compliance, based on: (i) the expansion of a mandatory tax filing scheme (the indicators for that scheme have been widened—e.g., owning a telephone would now be a sufficient criterion—and more cities have been included in the scheme); and (ii) a widening of the tax base by including VDIS respondents.

- Excise revenues are expected to increase with a modest rationalization in **excise tax** rates, including through moving a number of items from zero to positive rates, and an increase in the excise duty on gasoline from 20 to 35 percent (which was subsequently reduced to 32 percent).[21] However, tax exemptions for the small–scale industrial sector were increased, while tax credit under the Modvat was limited to 95 percent of duties paid on inputs.

- Although the **service tax** on road transportation was abolished, the service tax net was also widened to include management consultants, credit rating agencies, chartered accountants, and underwriting agencies.

- **Import duties** were raised by 8 percent across the board for most imports, with the intention to offset a perceived disadvantage from local taxation for domestic producers, and thus create a level playing field with importers.[22] Although the increase was later reduced to 4 percent, the effective rate increase amounts to 6–7 percentage points since the tariff is to be levied on top of other existing duties and is not eligible for Modvat credit.

35. The direct impact of these measures is expected to yield about 0.5 percent of GDP in additional revenues. Other revenue–enhancing steps include measures to strengthen **tax administration**. First, to encourage a speedier resolution of cases under litigation (which at present carry a nominal tax liability of Rs 540 billion, or 0.4 percent of GDP), the

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[21]The increase was also intended to offset a reduction in the import tariff on crude oil from 27 to 22 percent as part of the petroleum sector reforms. However, it was subsequently decided to absorb the excise rate increase through the OCC rather than price increases.

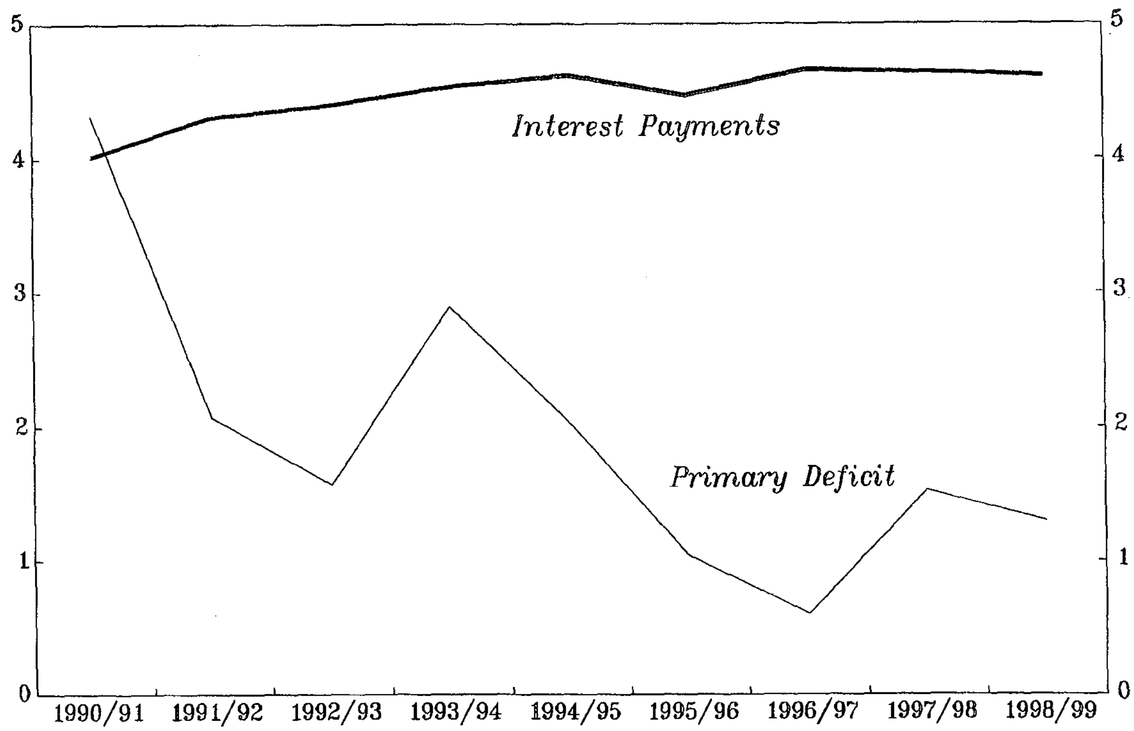
[22]The budget speech refers to a "clear disability that [India's] commodity taxation inflicts on indigenous goods vis–à–vis imported goods. While the former are subjected to sales tax and other local taxes and levies, the import sector escapes them by their very nature."

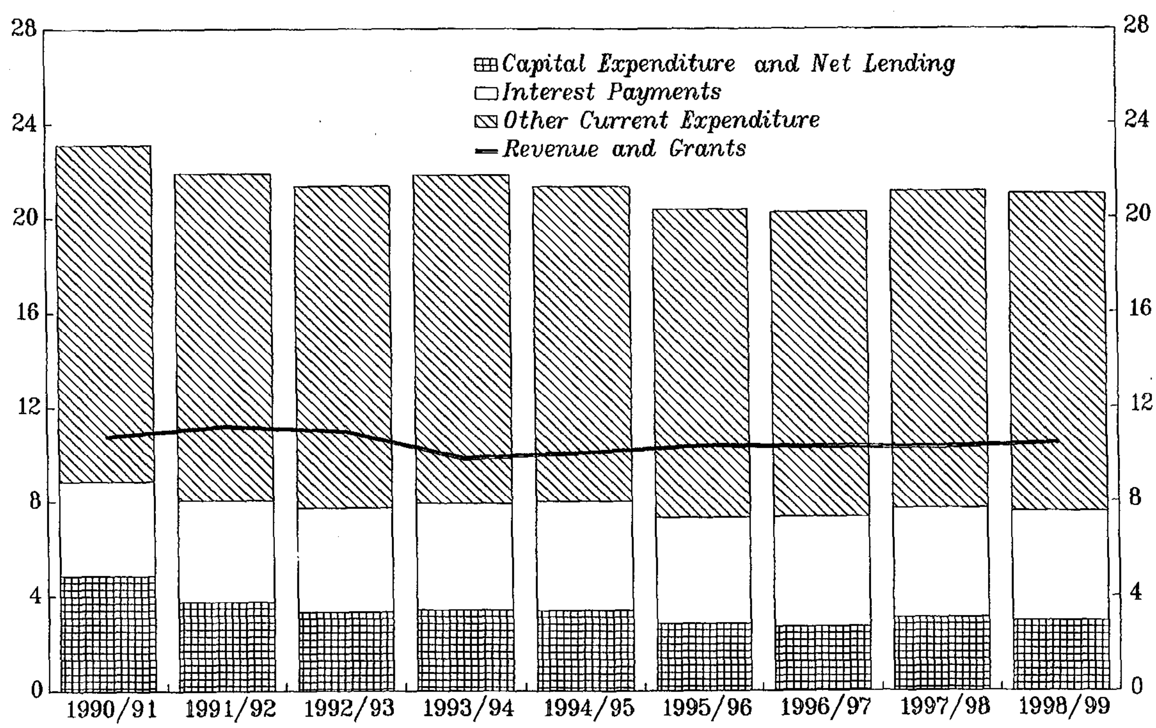
CHART III.3

INDIA

CENTRAL GOVERNMENT OPERATIONS, 1990/91 - 1998/99 1/

(In percent of GDP)





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

1/ 1998/99 figures are budget estimates.

government introduced a scheme to settle arrears at current tax rates, while waiving interest and tax penalties;[23] and second, to improve tax compliance, the government is also about to issue personal tax account numbers that will need to be quoted in large financial transactions.

36. On the **expenditure** side, the budget contained the following elements:

- As part of a general increase in plan expenditure, outlays on **infrastructure** (energy and transport) are projected to rise by ¾ percent of GDP, with the bulk to be implemented by public enterprises.

- The government announced new initiatives on **agriculture, housing, and social spending**, with plan allocations in these areas increasing by ½ percent of GDP. The authorities also intend to consolidate and streamline the large number of different poverty alleviation and other centrally sponsored schemes.

- Spending on **subsidies** is to remain largely unchanged, after a budget proposal to increase urea prices was subsequently withdrawn.

- **Military spending** is projected to remain around 2½ percent of GDP (Table III.5). The budget speech stated that the authorities would "consider further increase in the budgetary support during the course of the year, if necessary."

37. With the effects of the Pay Commission award having been absorbed in the 1997/98 budget, growth in the public sector **wage bill** returns to a lower level. Nevertheless, the retirement age for central government staff was raised by two years to 60 years in May. This measure is expected to lead to temporary savings of Rs 50 billion (0.3 percent of GDP) for the next two years, as savings on pensions and lump–sum payments associated with retirement exceed wage costs. However, since staff intake is not being correspondingly reduced, central government employment is projected to increase by 0.7 percent in 1998/99, and public sector employment levels remain high (Box III.3).

C. Fiscal Reforms

38. The budget contained a fresh initiative on **divestment**. The government announced it would be willing to reduce holdings in non–strategic enterprises to 26 percent. Its equity holding in Indian Airlines is to be reduced to 49 percent over three years, and additional portions of some larger enterprises (IOC, GAIL, VSNL, and Concor), worth Rs 50 billion, are slated for sale in 1998/99.

39. In order to increase the scope for **closure of unproductive public enterprises**, the government introduced a more attractive (but time–bound) compensation package for workers opting for voluntary retirement. The benefits will be paid from a newly established

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[23]In the case of indirect taxes, settlement would be at 50 percent of outstanding duties.

Box III.3. Public Sector Employment

Employment in the public sector accounts for more than two thirds of employment in the organized labor market (see table). The largest public sector employers are the railways (1.7 million), police (0.6 million), and the departments of post (0.6 million) and telecommunication (0.4 million), although the bulk of public sector workers are employed by the states and the large public sector enterprises. There has been a slight decline in the share of public sector employment in recent years, but overall public sector employment has increased since 1990, despite some modest staff reduction at the central government level.

There is considerable scope to increase productivity and reduce the size of the public sector payroll. For example, the Fifth Pay Commission recommended reducing staff levels by some 30 percent over ten years (mostly through natural attrition), with a view to minimize the impact of the substantial wage increases it had proposed. This recommendation has not been adopted by the government, however, with the 1998/99 budget projecting an increase in central government staff by 0.7 percent.

India: Employment in the Organized Labor Market

(In millions; as of March 31)

	1990	1995	1996	1997	R.E. 1998	B.E. 1999
Total employment	26.35	27.53	27.94	...	...	...
Public sector	18.77	19.47	19.43	...	...	...
Central government	3.39	3.40	3.37	...	...	...
State governments	6.98	7.36	7.41	...	...	...
Quasi–government	6.17	6.52	6.46	...	...	...
Local bodies	2.22	2.20	2.19	...	...	...
Memorandum item						
Central government (as in budget documents)	4.06	3.78	3.77	3.83	3.88	3.91

Sources: Government of India, *Economic Survey 1997–98*; and Union budget documents.

Table III.5. India: Details of Military Spending

(In billions of rupees)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	Rev.Est 1997/98	Budget 1998/99
Current expenditure	**109**	**114**	**121**	**150**	**164**	**188**	**210**	**268**	**308**
Salaries	45	47	54	60	66	75	85	115	129
Army	36	37	43	47	52	59	66	90	102
Navy	3	4	4	5	5	6	7	9	10
Air Force	6	6	7	8	9	10	12	16	17
Pensions	17	18	23	25	27	32	37	49	59
Other	47	49	44	65	71	81	88	104	120
Capital expenditure	**46**	**49**	**55**	**69**	**68**	**80**	**85**	**93**	**104**
Aircraft and aero-engines	16	17	20	23	26	28	29	37	32
Naval fleet	7	8	7	10	11	14	15	18	21
R&D	2	2	2	3	3	4	6	7	7
Other	21	22	26	33	28	34	35	31	44
Total military expenditure	**154**	**163**	**176**	**218**	**232**	**269**	**295**	**361**	**412**
(in percent of GDP)	(2.9)	(2.7)	(2.5)	(2.7)	(2.4)	(2.4)	(2.3)	(2.6)	(2.5)

Source: Union budget documents (Expenditure Budget, Vol. 2), various issues.

restructuring fund which is to be partly replenished from the sale of the closed companies' remaining assets.

40. Substantial reforms were introduced in the **petroleum sector**, including a revision of administered prices in September 1997, the move to market determined rates for selected products, and the adoption of a phased approach over four years to eliminate the administered price regime for the remaining products (see Box III.2). Subsidies on petroleum products will be largely eliminated, except for those on kerosene and cooking gas which are to be reduced and shifted to the budget at the end of the transition period.

41. A report by a review committee on **fertilizer pricing policy** recommended that the fertilizer industry be deregulated and the remaining products under the retention pricing system brought under a more competitive retail pricing system, subject to an overall ceiling

(similar to the scheme already adopted for the distribution of urea). As a result, the domestic fertilizer industry would be forced to become somewhat more competitive as the subsidy on fertilizer would be paid in relation to sales volumes, instead of guaranteeing a fixed return on assets.[24]

42. A number of **states** have initiated steps toward more comprehensive fiscal reform. The state of Maharashtra has begun to introduce a state–level VAT, and Andhra Pradesh recently agreed to a US$543 million economic restructuring program with the World Bank that involved a large fiscal reform agenda, including modernizing the sales tax system with the goal of introducing a VAT; curtailing the rice subsidy; improving cost recovery for irrigation; and reducing public employment (Box III.4). Other states have begun to follow the example of Orissa in power sector reform, including Gujarat, Haryana (which recently secured a US$60 million World Bank loan for power sector restructuring), Rajasthan and Uttar Pradesh. The new power policies adopted by these states broadly endorse: (i) creation of independent regulator agencies; (ii) cost–reflecting user tariffs; (iii) competition among independent power producers; (iv) divestment of shares in power generating public sector enterprises; and (v) restructuring and privatization of the distribution functions of state electricity boards.

43. Finally, the budget reaffirmed the government's willingness to adopt the recommendations of the Tenth Finance Commission to **share central taxes with states** from a single divisible revenue pool. Implementation of this recommendation will require a constitutional amendment.

IV. Monetary and Financial Sector Developments

A. Overview of Monetary Policy

44. Monetary policy has been on an easing trend over the past two years. During 1996/97, the Cash Reserve Ratio (CRR) was reduced in four steps from 14 percent to 10 percent (Table IV.1 and Chart IV.1). As the sluggish growth in industrial production continued into early 1997/98, and inflationary pressures declined, the RBI further eased monetary conditions. In the October 1997 Monetary and Credit Policy Statement it announced a phased reduction in the CRR to 8 percent, to be carried out in ¼ percentage point steps, but conditional on the monetary and price conditions prevailing at the time (the first two of these steps were undertaken in October and November 1997).[25] Between April and October 1997, the Bank rate was also reduced in stages from 12 percent to 9 percent.

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[24]See Ministry of Chemicals and Fertilizers, **Fertilizer Pricing Policy: Report of the High Powered Review Committee**, March 1998.

[25]The reduction in the CRR requirement is also part of the general policy of reducing pre–emptions on bank assets in line with the process of financial deregulation.

Box III.4. Fiscal Reforms in Andhra Pradesh

With a population of 72 million, Andhra Pradesh (AP) is one of India's largest states, located in the South East of the country. Despite a rich resource base, it has performed relatively poorly in the recent past. Growth of the gross state domestic product (GSDP) has averaged 4.6 percent over the last 10 years, compared to a national average of 5.6 percent. Most social development indicators are also below national levels; for example, the female literacy rate—at 33 percent—is one of the lowest in the country.

Fiscal pressures. Since the mid–1980s, AP has experienced substantial fiscal pressure, created by declining own revenue relative to GSDP and sharply rising public expenditure on subsidies, salaries, and poorly targeted welfare programs. As a result, productive expenditure on infrastructure, social sectors, and operations and maintenance (O&M) has been crowded out. Until recently, explicit and implicit subsidies (mainly on power and food) amounted to 7 percent of GSDP, and salaries and pensions accounted for half of total state revenue. Fiscal problems were exacerbated by the introduction of an enhanced rice subsidy and full prohibition on the sale of alcoholic beverages, both introduced in December 1994. AP's debt–to–GSDP ratio rose from 19.5 percent in 1991/92 to 27 percent in 1995/96, and interest payments increased from 12 to 16 percent of total revenue.

The state government, which took office in December 1995, has taken a number of decisions to reverse these trends, including reductions in the rice subsidy and in public sector employment; partial relaxation of prohibition on the sale of alcoholic beverages; introduction of a public enterprise reform program; a threefold increase in irrigation charges; and enactment of a Power Sector Reform Bill to address problems in this critical sector. With the initiation of these measures, GSDP growth has accelerated to 6 percent, the fiscal deficit has been brought down from 3.8 percent of GSDP in 1994/95 to 3 percent in 1997/98, and both domestic and foreign investors have reacted positively. AP has emerged as one of the top states for the location of new investment in India.

Fiscal restructuring program. In the context of a US$ 543 million economic restructuring project with the World Bank (approved on June 25, 1998), the AP government has committed to a fiscal program for the period 1998/99–2002/03 that builds on progress made in the past three years. The program has three main objectives, namely to: (i) enhance revenue efforts, including through a broadening of the revenue base, tax simplification and other administrative measures, and stronger cost recovery; (ii) change the composition of public expenditure towards productive spending; and (iii) contain the growth of public debt and guarantees, including through a further reduction in the fiscal deficit to 2.5 percent of GSDP by the end of the program.

To achieve these objectives, the AP government intends to take the following measures:

- **Tax measures**. The government plans to modernize the general sales tax system (which accounts for about two thirds of total tax revenue) by introducing a VAT after preparation of about 2 years.

- **Rice subsidy**. Although the government already reduced the rice subsidy from 1.6 percent of GSDP in 1995/96 to 0.7 percent in 1997/98 by raising the sales price and reducing the rice entitlement per family, further rationalization of the scheme and improved targeting are planned.

- **Irrigation**. The government intends to accelerate collection of irrigation charges to bring the collection rate from 60 percent to 90 percent .

- **Public employment**. Although 52,000 new teachers would be hired to strengthen primary education, government employment would fall by 2 percent per year in all other sectors (implying a loss of 76,000 positions).

- **Expenditure management**. The program emphasizes the need for better maintenance of existing assets in preference to starting new projects, and the government would also focus on the completion of ongoing projects through critical balancing investment before making fresh commitments. In addition, the government is considering options to spread the expected impact of Pay Commission awards likely to materialize in early 1999 over several years.

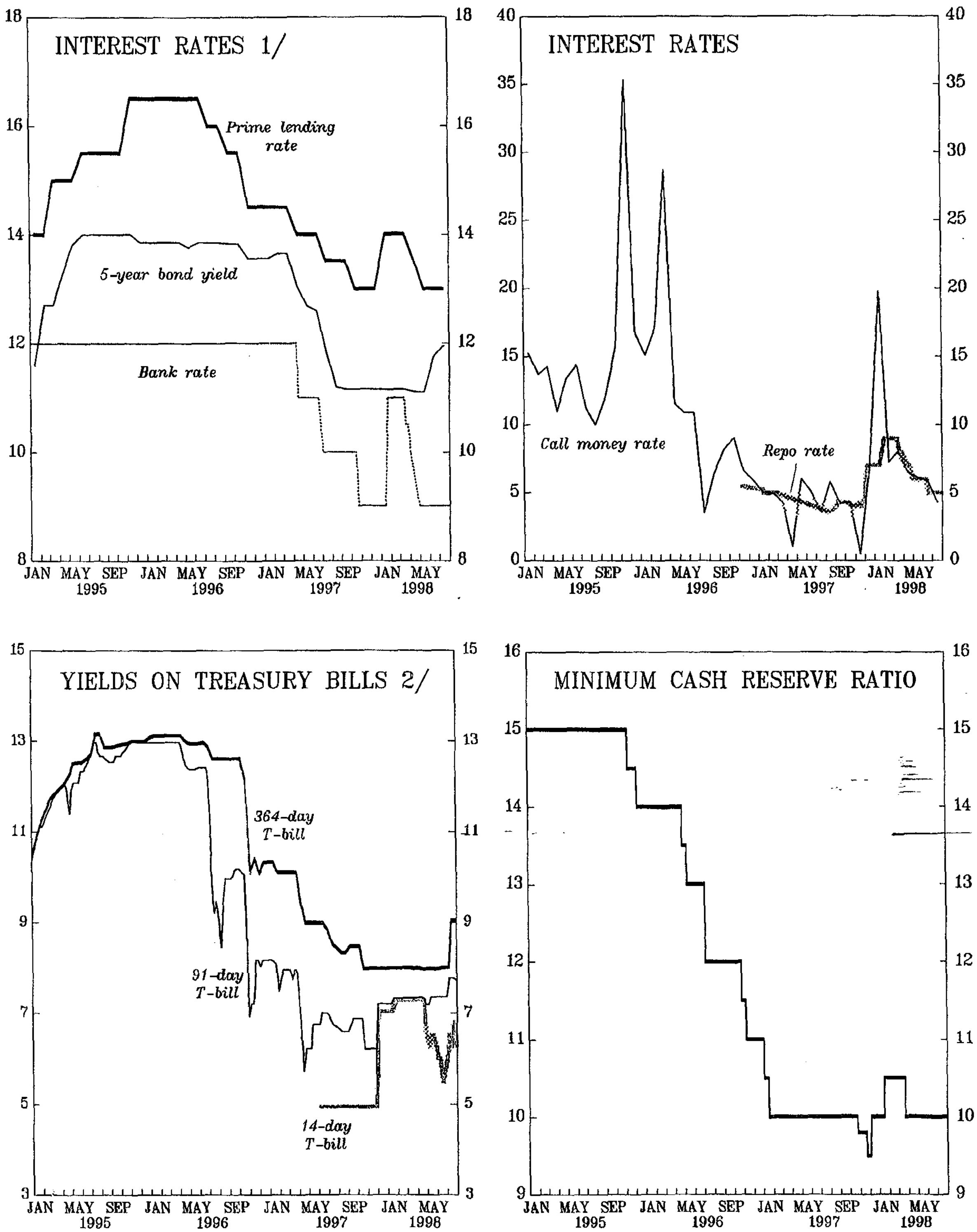
Source: World Bank.

CHART IV.1

INDIA

MONETARY INDICATORS, 1995-1998

(In percent; unless otherwise noted)



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

1/ 5-year bond yield from primary auctions. Prime lending rate of the State Bank of India.
2/ Auctions of 14-day Treasury bills were introduced on June 6, 1997.

Table IV.1: Selected Monetary Indicators, 1993/94–1998/99

(End of period)

	1993/94	1994/95	1995/96	1996/97	1997/98	June 1998
Reserve money (percent change)	25.2	22.1	14.9	2.8	13.1	12.4
M3 (percent change)	18.4	22.3	13.6	16.2	17.6	17.1
Credit to commercial sector (percent change)	8.0	23.1	17.7	9.2	14.9	14.7
Cash Reserve Ratio (CRR) (percent)	14.0	15.0	14.0	10.0	10.0	10.0
Bank rate (percent)	12.0	12.0	12.1	12.0	10.5	9.0
91–day T–bill yield (percent)	7.3	11.8	13.0	8.0	7.4	7.4

Source: Reserve Bank of India.

45. Substantial downward pressure on the rupee emerged in August 1997. Initially the authorities sought to secure a soft landing for the currency mainly through heavy spot and forward intervention (amounting to $5 billion), although monetary policy was also tightened in November with the CRR being raised from 9½ to 10 percent. A more decisive tightening was undertaken in January 1998 when the CRR was raised by a further ½ percentage point, the Bank Rate increased from 9 percent to 11 percent, and the repo rate from 7 percent to 9 percent.

46. As stability returned to the foreign exchange market, the tightening in policy was largely reversed during March and April 1998. The Bank Rate and the repo rate were reduced in stages to 9 percent and 6 percent respectively, although the CRR was only reduced to 10 percent as liquidity in the banking system was deemed sufficient.[26] Despite the re–emergence of some downward pressure on the rupee during May and June, the repo rate was reduced further to 5 percent in mid–June.

47. In its conduct of monetary policy, the RBI has sought to place increasing emphasis on short–term interest rates as a monetary policy instrument. To this end, the Bank Rate, the RBI's main reference rate, was reactivated as a policy instrument in April 1997 (it had

[26]In a separate move, the RBI will release Rs. 25 billion to commercial banks that had been impounded between May 1991 and April 1992 through an incremental 10 percent CRR. The aggregate amount would imply roughly a half percentage point cut in the CRR, but it will be released in equal instalments between May 1998 and March 1999.

remained unchanged since October 1991). All interest rates on advances from the RBI are now linked to the Bank Rate. Other key short–term rates are the repurchase (repo) rate (repos are usually of 3–5 day maturities) and the general refinance rate. The repo rate effectively sets a floor under rates in the call money market, while the general refinance rate usually sets the ceiling (although there are exceptions in both cases).

B. Interest Rates

48. The easing in monetary policy during 1996 and 1997 led to a substantial decline in short–term interest rates, with the yield on 91–day Treasury bills falling from 13 percent in March 1996 to a low of 6¼ percent in October 1997. However, longer term rates remained largely unchanged until 1997, and, consequently, there was a significant steepening in the yield curve, with the differential between long and short–term rates widening from around 1 percent to a peak of 7 percent (Chart IV.2). The failure of long–term rates to fall in response to the easing in policy can be largely attributed to the need to finance the large and persistent fiscal deficit over this period. With much of the government's required financing for the 1997/98 budget being carried out early in the fiscal year, bond yields began to ease mid–year, and the yield curve flattened. Commercial banks reduced their prime lending rate (PLR) from 16½ percent in mid–1996 to 13 percent by late 1997.[27] However, real borrowing rates (measured with actual WPI inflation) remained high.

49. The tightening in policy in January resulted in a sharp increase in bond yields in the secondary market, while the yields on short dated Treasury bills also rose.[28] Commercial banks also raised their PLR for a short period. While the easing in monetary policy during March–April 1998 initially took the pressure of market yields, more recently, the substantial government borrowing requirement for 1998/99 has put upward pressure on rates, and secondary market bond yields begin to rise as early as March. Primary yields were somewhat slower to adjust, resulting in a significant proportion of the government's funding requirement devolving to the RBI (see below). By June, however, primary yields had moved up in line with those in the secondary market.

C. Monetary Aggregates

50. **Reserve money**, which had grown by only 2¾ percent during 1996/97 as the CRR requirement on commercial banks was eased, increased by 13 percent in 1997/98 (Chart IV.3). Net foreign assets (NFA) of the RBI rose strongly, particularly in the first half of the year, in line with the strong capital inflows. Growth in net domestic assets (NDA) of

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[27]Most lending occurs at a margin above the PLR. In May 1998, most commercial banks had a spread of 4 percentage points over prime for many of their corporate customers.

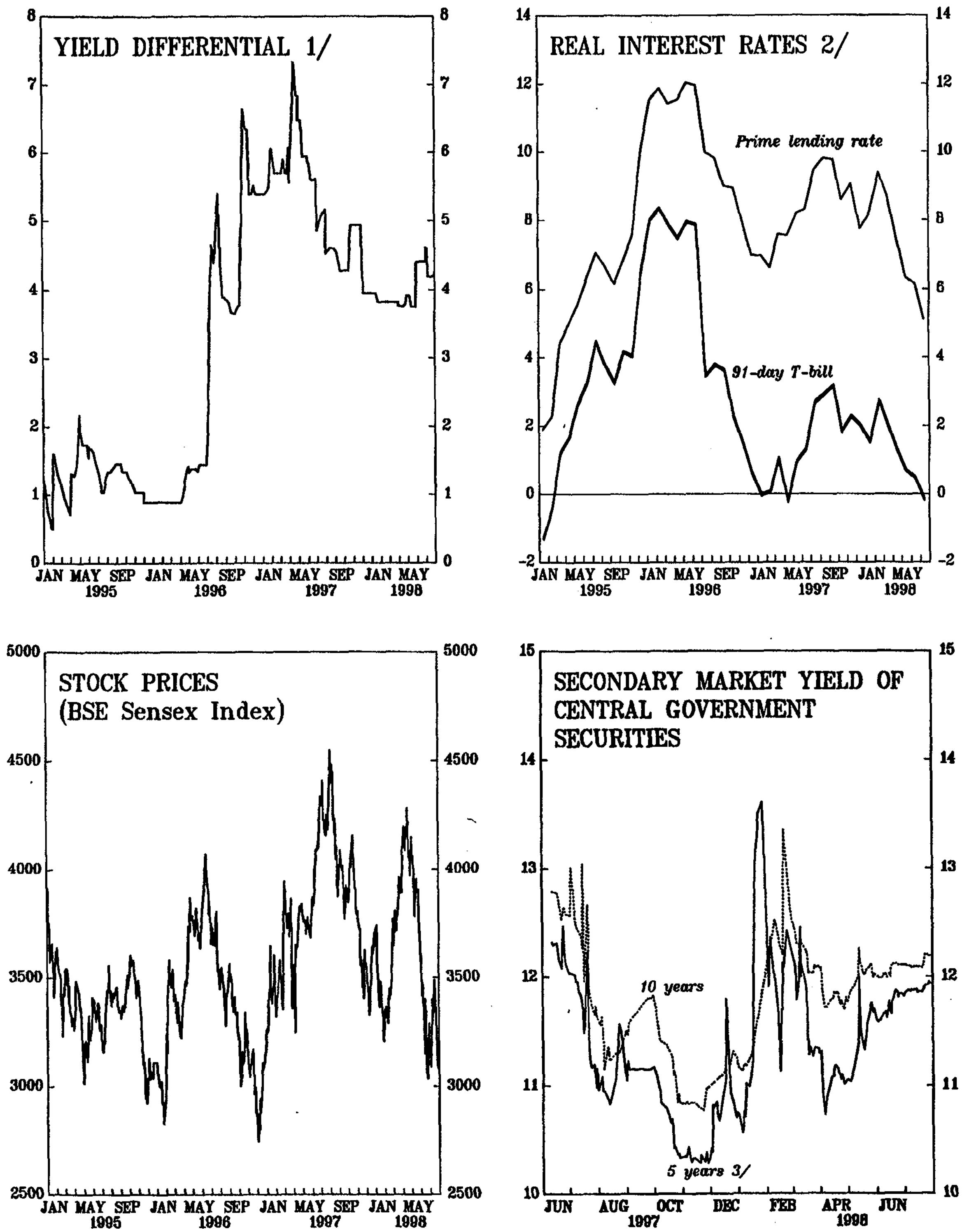
[28]Primary market yields, as shown in Chart IV.1, do not provide a good characterization of developments because of the infrequency of auctions.

CHART IV.2

INDIA

INTEREST RATE DEVELOPMENTS, 1995-98

(In percent, unless otherwise indicated)



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

1/ Difference between 5-year yield on government bonds (at auction) and 91-day Treasury bill yield.

2/ Expressed as interest rates less WPI inflation. Prime lending rate is of the State Bank of India.

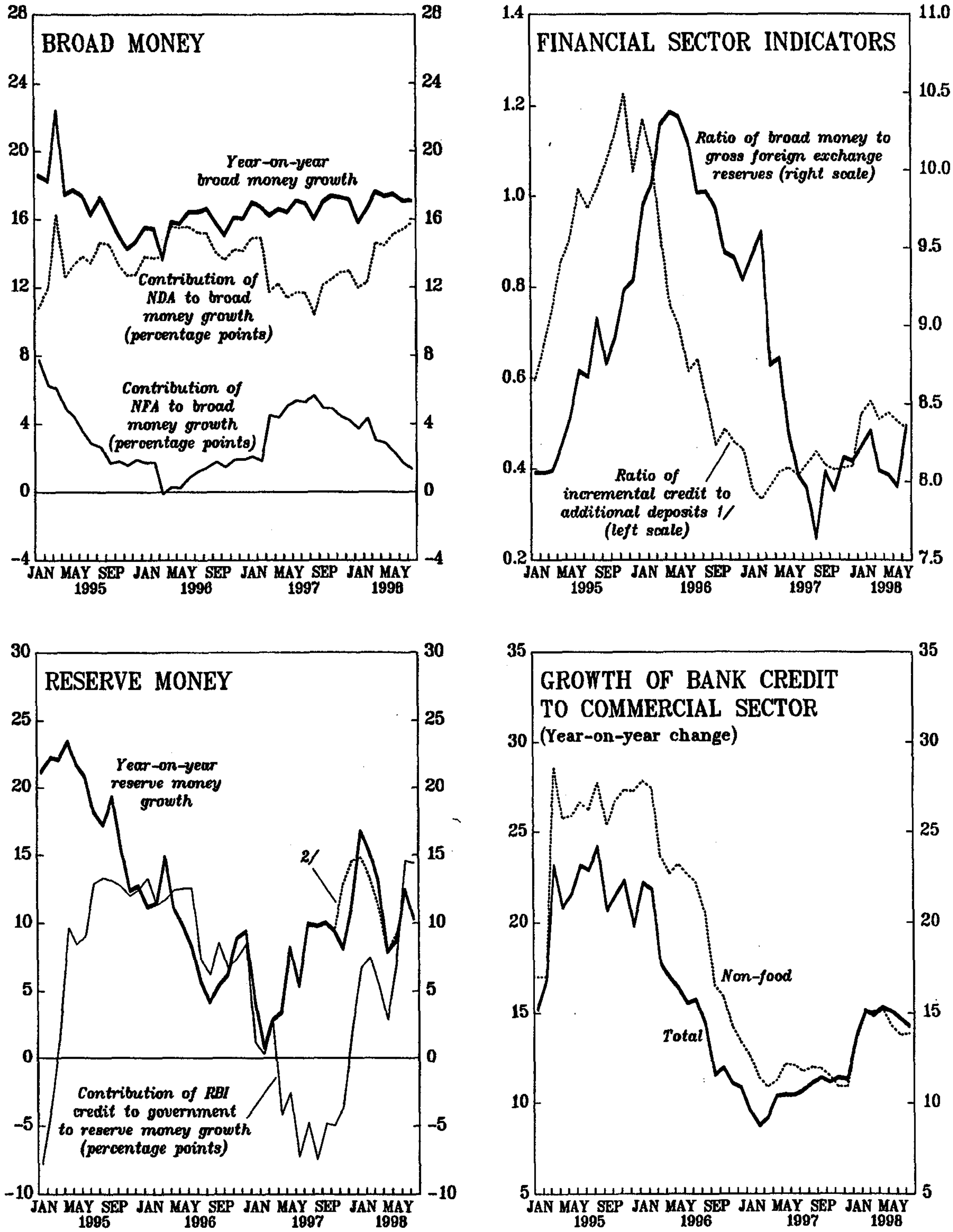
3/ 6-year bond yield from June 18, 1998.

CHART IV.3

INDIA

SELECTED MONETARY DEVELOPMENTS, 1995-98

(In percent, unless otherwise indicated)



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

1/ Twelve-month increase in credit to the private sector as a ratio of the twelve-month increase in commercial bank deposits.

2/ Adjusted for changes in the cash reserve ratio (CRR) since October 1997.

the RBI was driven primarily by net credit to the government, although growth was relatively modest as the government's funding requirement was mainly met through the market.

51. **Broad money** growth in 1997/98, at 17½ percent, exceeded the RBI's end–year target range of 15–15½ percent despite considerably lower than expected growth in nominal GDP. The strength of broad money growth reflected:

- A strong rise in **net foreign assets** during the first half of the year which contributed significantly to M3 growth, although these flows weakened in the second half of the year, responding to changes in investor sentiment.
- **Credit to the commercial sector** remained quite weak in the first half of the 1997/98, but picked–up during the second half of the year, with year–on–year growth in March of 15 percent.
- **Net credit to the government** contributed 6 percentage points of M3 growth in 1997/98, a little higher than in 1995/96. The relatively high yields and the zero risk weighting on government securities continued to make these attractive investments for commercial banks as they sought to improve the quality of their balance sheets. Commercial bank holdings of government and other approved securities currently stand at over 37 percent of deposits, compared to the SLR requirement of 25 percent.

52. In the **April 1998 Monetary and Credit Policy Statement**, the RBI set a broad money target of 15–15½ percent for 1998/99, the same target as in 1997/98. This target was set against a background of continued sluggish growth, some pick–up in inflation, a large government borrowing requirement for 1998/99, and a very comfortable level of liquidity in the financial system. However, the statement also somewhat downplayed the role of the monetary target, instead indicating a move in the direction of a multiple indicators approach to setting monetary policy.

53. Monetary developments during the first three months of 1998/99 have been dominated by the need to finance the large fiscal deficit. Broad money growth has continued in the 17–17½ range, above the RBI's target. Growth of NDA has accelerated on account of a sharp pick–up in net credit to the government as the authorities have sought to raise a large proportion of the 1998/99 borrowing requirement in the early months of the year. NFA contributed little to M3 growth in the year to June. Reserve money growth stood at 12½ percent (year–on–year) in June. Within this, net domestic assets of the RBI grew strongly due to a sharp increase in RBI credit to the government as a sizable proportion of treasury bills and bonds devolved to the RBI. Through early August, about 30 percent of the stock of government securities issued in 1998/99 has devolved, or been directly placed, with the RBI. However, this has been partially offset within NDA by the contractionary impact from other items (net) reflecting the revaluation of the RBI's foreign exchange assets. Growth in net foreign assets has also continued to slow.

54. The flow of funds to the corporate sector from banking and financial institutions picked up strongly during 1997/98. As well as the reasonably strong growth in commercial bank credit, the **All–India financial institutions** (such as IDBI, IFCI, and ICICI) continued to expand their business rapidly during the year with disbursements totaling Rs 507 billion compared to Rs 394 billion in 1996/97. This increase in funding from the banks and financial institutions is consistent with the pick–up in industrial activity that took place during the course of 1997/98. It also reflects a switch in funding sources away from equity financing as the depressed state of the local stock market made equity financing less attractive. While external debt financing was much higher in 1997/98 than in 1996/97, this was concentrated in the first half of the year. The strong growth in domestic borrowing during the second half of the year partly reflects a switch away from external borrowing as the increased interest cost and currency risk made this a less attractive financing source.

55. Given the growing importance of financial intermediaries other than commercial banks in the financial system, and the greater scope that financial deregulation has given institutions in their operations, the RBI convened a committee to look at the current construction and coverage of the monetary aggregates. The major recommendations of the committee are set out in Box IV.1.

D. Financial Sector Reforms and Performance

56. The operating performance of commercial banks improved slightly in 1996/97 (Table IV.2).[29] While gross profits remained broadly unchanged at ¾ percent of assets, net profits rose from ¼ to ¾ percent of assets. This was on account of an improvement in the net profits of public sector banks, which dominate the banking sector. Due to a substantial decline in provisioning their net profits increased to ½ percent of assets in 1996/97, compared to a small loss in 1995/96. The average risk–weighted capital ratio (RWCR) of the public sector banks increased to 10 percent, from 8¾ percent in 1995/96. Of the 27 public sector commercial banks, all but 2 met the minimum 8 percent capital ratio set by the RBI, while 16 had a capital ratio in excess of 10 percent. However, nonperforming loans (NPLs) increased slightly during the year, from 17¼ to 17¾ percent of outstanding loans, although this is significantly down from the 23½ percent in 1993/94. Net of provisions, NPLs increased slightly to 9¼ percent of advances in 1996/97 from 9 percent in 1995/96.[30] A very wide divergence of performance between the banks remains, with 10 having net NPLs in excess of 10 percent of advances.

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[29]For a detailed discussion of these issues, see the paper on "The Financial Performance of Public Sector Commercial Banks in India" in the accompanying *Selected Issues* volume.

[30]As write–offs, even of fully provisional loans, are difficult in the Indian legal and regulatory framework, provisions are a relatively large proportion of NPLs for a strong bank.

Box IV.1. Working Group on Money Supply: Analytics and Methodology of Compilation

In December 1997, the RBI established a Working Group on Money Supply: Analytics and Methodology of Compilation. The RBI felt that the far reaching changes that have taken place in the macroeconomic and financial environment in recent years necessitated the need for a review of current practices. In particular, banks are now raising funds from non–traditional sources, including through certificates of deposits (CDs), while the boundaries between banks, development finance institutions, and nonbank finance companies are being eroded.

The group recently submitted its report, which included a number of recommendations for modifications to the coverage and construction of monetary aggregates in India. In making these recommendations, close attention was paid to the need to ensure that Indian standards are close to international ones as set out in the IMF's *Manual on Monetary and Financial Statistics*.[1] The main recommendations were:

- In addition to the four monetary aggregates currently calculated and published by the RBI, three liquidity aggregates should also be compiled. These liquidity aggregates would be: $L_1 = M_3$ + all deposits with the Post Office Savings Bank; $L_2 = L_1$ + Term Deposits with Financial Institutions (FIs) + Term borrowing by FIs + CDs issued by FIs; $L_3 = L_2$ + Public Deposits of NBFCs. L_1 and L_2 would be published on a monthly basis, and L_3 on a quarterly basis. In addition, a financial sector survey, covering all financial corporations, should be compiled quarterly.

- The definition of the existing monetary aggregates should be modified in several ways: postal deposits, currently included in M2, should be excluded (but included in L_1); call funding of banks from other financial institutions should be included in M3; and FCNR(B) deposits should be excluded from definitions of the domestic money stock.

- The definition of bank credit should be broadened to include investments in commercial paper, shares, and debentures (bank credit currently includes advances in the form of loans, cash credit, overdrafts, bills purchased and discounted, and investments in "approved" securities other than government securities).

- Net foreign assets of the banking system should be redefined to be foreign assets net of FCNR(B) deposits and overseas foreign currency borrowing.

- More detail of the capital account of the banking system should be published.

- Efforts should be made to improve the timeliness of the reporting of the major categories of co–operative banks.

[1]International Monetary Fund, draft of August 1996. The Manual has not yet been finalized.

Table IV.2: Indicators of the Financial Performance of Commercial Banks, 1993/94–1996/97

	1993/94	1994/95	1995/96	1996/97
Risk–weighted capital ratio (RWCR) (27 public sector banks)	...	...	8.7	10.0
Number of institutions not meeting 8 percent RWCR				
Public sector banks	19	14	8	2
Domestic private banks	...	...	6	4
Foreign banks	...	...	0	0
Gross non–performing loans (percent of outstanding loans) 1/				
Public sector banks	23.6	19.5	17.3	17.8
Net non–performing loans (percent of outstanding loans) 2/				
Public sector banks	...	...	8.9	9.2
Domestic private banks	...	...	4.5	5.0
Foreign banks	...	...	0.8	2.5
Gross profit(+)/loss(-) of commercial banks (percent of total assets)				
All banks	1.3	1.6	1.7	1.8
Public banks	1.0	1.4	1.5	1.6
Domestic private banks	1.8	2.0	2.2	2.2
Foreign banks	3.8	3.9	3.4	3.6
Net profit(+)/loss(–) of commercial banks (percent of total assets)				
All banks	–0.9	0.4	0.2	0.7
Public sector banks	–1.2	0.3	–0.1	0.6
Domestic private banks	0.6	1.1	1.2	1.2
Foreign banks	1.5	1.7	1.6	1.4

Source: Data provided by the Indian authorities.

1/ Loans are regarded as sub–standard when in arrears for 6 months, with agriculture loans treated even more liberally.

2/ Gross non–performing loans less provisions.

57. During 1996/97, the government provided financial assistance to eight public sector banks (totaling Rs 30 billion), and in February 1998 a further three banks received Rs 27 billion in assistance. However, three banks returned capital to the government during 1996/97, and three entered the domestic capital market, while the State Bank of India floated a GDR issue that raised $370 million. A further four raised subordinated debt through private placements.

58. Further measures were introduced during 1997/98 to strengthen the regulatory and supervisory structure for financial institutions and to deregulate the operations of the financial sector. The regulatory framework governing the operations of deposit taking nonbank finance companies (NBFCs) was extensively overhauled in January following a

number of financial problems in the sector.[31] Both the October 1997 and April 1998 Monetary and Credit Policy Statements contained a number of reform measures (Box IV.2); some of those in the latter followed the recommendations of the Narasimham Committee (see below). In the budget, it was announced that the capital adequacy ratio would be increased to 9 percent by March 2000, and to 10 percent "as early as possible thereafter".

59. Several high level committees were convened by the authorities during the course of year to consider a number of key issues in the future development of the financial sector. These were the Narasimham Committee on Banking Sector Reforms; the Khan Committee on Harmonizing the Role and Operations of Development Finance Institutions (DFIs) and Banks; and the Gupta Committee on Agricultural Credit. The recommendations of these committees are outlined in Box IV.3.

60. With regard to the **capital markets**, the Securities and Exchange Board of India (SEBI) and the government took a number of steps to deepen the markets and to promote investor protection, risk management, and market development. These included:

- Facilitating the financing of infrastructure projects by exempting infrastructure companies and municipal corporations from the requirement of listing equity before any debt instruments can be listed on the stock exchanges.

- The streamlining of issue procedures by replacing the requirement for SEBI to vet all offer documents prior to a public offer with the requirement that a draft prospectus be placed with SEBI prior to issue.

- The implementation of a comprehensive system of margin and exposure limits.

- Following recommendations by the Gupta Committee on the Regulatory Framework for Derivatives Trading in India, the phased introduction of derivative products was announced, with stock index futures as the starting point for equity derivatives.

- A standard offer document was prepared by SEBI which prescribes the minimum disclosure requirements to be contained in the offer document of any mutual fund scheme.

- Auctions of 14–day Treasury bills were introduced in June 1997.

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[31]The operations of the NBFCs and recent changes to the regulatory and supervisory framework governing these institutions is discussed in "Nonbank Finance Companies in India: Developments and Issues" in the accompanying *Selected Issues* volume.

Box IV.2. Key Reforms in the October 1997 and April 1998 Monetary and Credit Policy Statements

Monetary and credit policy

- Interest rates on term deposits of 30 days to 1–year maturity were deregulated (banks were already free to set interest rates on deposits with maturity over 1 year). The interest rate ceiling on foreign currency nonresident accounts was linked to LIBOR (October).

- The interest rate on export credit (up to 180 days) was cut from 12 to 11 percent, while the export credit refinance facility was increased to 100 percent (from 50 percent) of outstanding eligible credit (April).

- Changes in monetary policy settings are to increasingly occur outside of the traditional April and October policy statements (April).

Money markets

- The minimum transaction size in the call/notice money market was cut in half (October).

- The minimum lock–in period for CDs and Money Market Mutual Funds was reduced from 30 to 15 days (April).

Government securities market

- Foreign institutional investors were allowed to purchase/sell Treasury bills within the overall approved debt ceilings (April).

Foreign exchange market

- The previous uniform limit of US$10 million on banks' overseas borrowing for use in India and banks' investment in overseas money markets was replaced by a limit of 15 percent of Tier I capital (October).

Capital account liberalization

- Foreign exchange earners have been permitted to retain 50 percent of their exchange earnings in foreign currency accounts (October).

- Mutual funds were allowed to invest up to $500 million in overseas markets (October).

Deposit and lending rates

- Banks will no longer be required to offer the same interest rate on the same maturity deposits regardless of size. The minimum maturity period for term deposits is to be reduced from 30 to 15 days (April).

- The interest rate ceiling on foreign currency non–resident account deposits with maturity of one year and above was increased by 50 basis points, and that on deposits of below one year maturity reduced by 25 basis points (April).

- Restrictions on lending rates to small borrowers have been eased (April).

Prudential norms

- Banks will be required to mark–to–market a minimum of 70 percent of their securities in 1998/99 (as against 60 percent for 1997/98). This will be raised to 100 percent over the next three years (April).

Box IV.3: Recommendations of the Narasimham, Khan, and Gupta Reports

The main recommendations of the **Narasimham Report** on Banking Sector Reforms were to:

- Raise the minimum **capital ratio** for banks from 8 to 10 percent.
- Tighten **loan classification** standards for doubtful assets. Specifically, the criterion for a substandard asset would be kept unchanged at 6 months past due, while the criterion for a doubtful asset would be reduced from 30 months past due to 18 months over the next three years. Loans would be classified in the loss category when they are so identified, but not written off.
- Introduce a general **provision** of 1 percent, and make specific provisions tax deductible.
- Require greater **disclosure** from banks in areas such as the maturity and currency composition of assets and liabilities, movements in the provision account, and nonperforming assets.
- Allow **mergers** on business grounds, and permit rationalization of **branch networks and staff numbers**. Also, improve **internal control systems** and upgrade banks' skills base.
- Reduce the minimum **government share holding** in public sector banks to 33 percent (from 55 percent for the State Bank of India and 51 percent for the others), and rely on the private sector for the **recapitalization** process.
- Allow **foreign banks** to set up subsidiaries or joint ventures (instead of just branches as at present).
- Announce formally the full accession to the **Core Principles** for supervision.
- Improve the machinery for **debt recovery** and changing the legislative framework.

The **Khan Committee** on Harmonizing the Role and Operations of Development Finance Institutions (DFIs) and Banks recommended a move toward universal banking, with a progressive elimination of the boundaries between banks and DFIs. The Narasimham Committee also supported this convergence. Mergers between banks and DFIs, and among banks themselves should also be permitted. Both Committees also noted the need for harmonization of the cash reserve and statutory liquidity requirements over time.

The **Gupta Report** on Agricultural Credit recommended: further deregulation of priority sector lending; permitting banks to set interest rates on agricultural loans; and speeding up the process of credit by allowing bank branches to approve most loans.

V. External Sector Developments

A. Overview

61. The balance of payments remained strong in 1997/98, with private capital inflows continuing to boost international reserves, despite a widening in the current account deficit to around 1½ percent of GDP (Table V.1). Export growth in dollar terms decelerated further in 1997/98, while import growth was stronger. Portfolio inflows fell sharply in 1997/98, although this decline was offset by buoyant net inflows of foreign direct investment and external commercial borrowing. The rupee has come under pressure over the last year, depreciating by 19 percent against the dollar between the onset of the Asian crisis in July 1997 and end–July 1998. On the reform agenda, the authorities have taken further steps to open the capital account and to liberalize the trade and exchange regimes.

B. Current Account

62. Export performance in dollar terms remained weak in 1997/98. **Exports** grew by 2.3 percent in dollar terms in 1997/98, compared with 4.5 percent in the previous year, markedly below the growth rates recorded in recent years (Chart V.1). However, the performance of exports has been robust in volume terms: partner country import deflators from the IMF's World Economic Outlook (WEO) suggest that export volumes rose by 9 percent in 1996/97 and by about 11 percent in 1997/98 (Chart V.2). A number of major export sectors have performed relatively well, most notably chemicals and related products, gems and jewelry, and engineering goods. Nonetheless, traditional sectors, such as agricultural products, garments, and leather goods have performed poorly. These sectors have been affected by weaker demand in world markets as well as sector–specific factors, such as the virtual freeze on wheat exports to meet domestic demand, antidumping action by the European Union affecting garment exports, and stricter domestic environmental norms affecting leather exports. The performance of exports has also reflected structural factors such as infrastructure constraints, most notably in electric power and port facilities, and lack of reforms in the export–oriented small–scale sector.

63. Import growth in dollar terms has also been weak, but non–oil imports have been strong. **Imports** rose by 5.2 percent in dollar terms in 1997/98 (compared with 10.1 percent in 1996/97). Oil imports declined by 24.3 percent in 1997/98, benefiting from the fall in the international oil prices, but they were offset by an increase in non–oil imports (up 12.3 percent for the year), partly in response to the relaxation of some controls on consumer goods imports. Among the major import categories, iron and steel, and machinery and transport equipment declined in dollar terms, affected by the slowdown in domestic investment activity. Imports of gold rose sharply in 1997/98, following the liberalization of imports of gold and silver in October 1997 that provided incentives for the flow of gold imports through official channels (Box V.1).

64. The **current account** deficit is estimated to have widened from 1 percent of GDP in 1996/97 to 1.6 percent of GDP in 1997/98. Against the background of a marginal rise in the

Table V.1. India: Balance of Payments 1993/94-1997/98

(In millions of U.S. dollars)

	1993/94	1994/95	1995/96	1996/97	Prel. Est. 1997/98
Current account balance	-1,158	-3,369	-5,899	-3,661	-6,100
Trade balance	-4,056	-9,049	-11,359	-14,299	-15,600
Export, f.o.b.	22,683	26,855	32,311	33,764	34,700
Imports, c.i.f. 1/	26,739	35,904	43,670	48,063	50,300
Oil	5,753	5,928	7,526	10,036	7,600
Non-oil	20,986	29,976	36,144	38,027	42,700
Nonfactor services balance	535	602	-186	2,407	1,263
Receipts	5,264	6,135	7,357	8,615	8,947
Payments	4,729	5,533	7,543	6,208	7,684
Net investment income	-3,270	-3,431	-3,205	-3,250	-4,173
Credits	395	886	1,429	1,073	1,100
Debits	3,665	4,317	4,634	4,323	5,274
Interest	3,818	4,099	4,315	4,172	4,829
Dividends	-153	218	319	151	444
Transfers, net	5,633	8,509	8,851	11,481	12,410
Private transfers, net	5,265	8,093	8,506	11,071	12,060
Grants	368	416	345	410	350
Capital account balance	9,695	9,156	4,678	10,456	10,615
Direct investment, net	586	1,343	2,133	2,524	3,075
Portfolio investment, net	3,649	3,579	2,661	3,310	1,600
FII and other, net	2,047	1,742	2,009	1,945	955
GDR issues	1,602	1,837	652	1,365	645
External assistance	1,901	1,526	883	1,109	1,000
Disbursements	3,476	3,191	2,933	3,056	3,058
Amortization	1,575	1,665	2,050	1,947	2,058
Commercial borrowing	607	1,030	1,275	1,009	3,500
Disbursements	2,913	4,152	4,252	5,732	5,595
Amortization	2,306	3,122	2,977	4,723	2,095
Short-term credit, net	-769	393	49	838	-50
NRI deposits, net	1,205	172	1,103	3,536	1,140
Rupee debt	-1,053	-983	-952	-727	-750
Other capital (incl. errors and omissions)	3,569	2,096	-2,474	-1,143	1,100
Overall balance	8,537	5,787	-1,221	6,795	4,515
IMF, net	187	-1,143	-1,715	-977	-615
Increase in gross reserves (-)	-8,724	-4,644	2,936	-5,818	-3,900
Memorandum items:					
Foreign currency reserves	15,068	20,809	17,044	22,367	25,975
In months of imports	6.8	7.0	4.7	5.6	6.2
Export value (in US$ terms; percent change)	20.2	18.4	20.3	4.5	2.3
Import value (in US$ terms; percent change)	10.0	34.3	21.6	10.1	5.2
Exports (in volume terms; percent change) 2/	25.0	13.1	12.7	9.0	11.2
Imports (in volume terms; percent change) 2/	15.0	29.2	13.4	12.1	14.8
Current account (percent of GDP)	-0.4	-1.1	-1.8	-1.0	-1.6
External debt (percent of GDP)	35.9	32.6	27.6	25.6	24.8
Debt service ratio (percent)	25.5	26.2	24.2	22.2	22.7

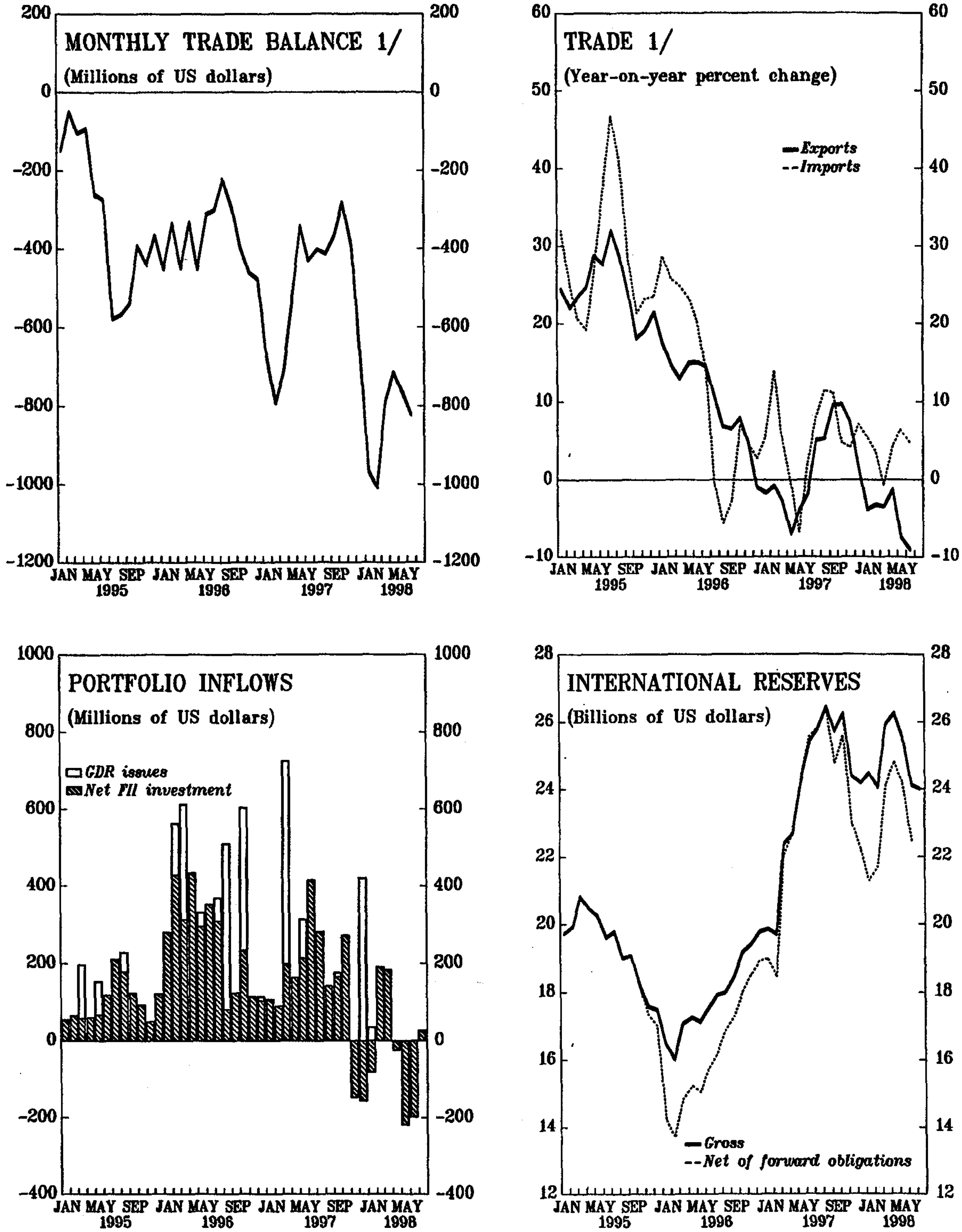
Sources: Data provided by the Indian authorities; World Economic Outlook; and staff estimates.

1/ Includes interest on trade finance.
2/ Merchandise trade only; volume estimates are derived from partner country trade price deflators from the WEO database.

CHART V.1

INDIA

SELECTED EXTERNAL INDICATORS, 1995-98



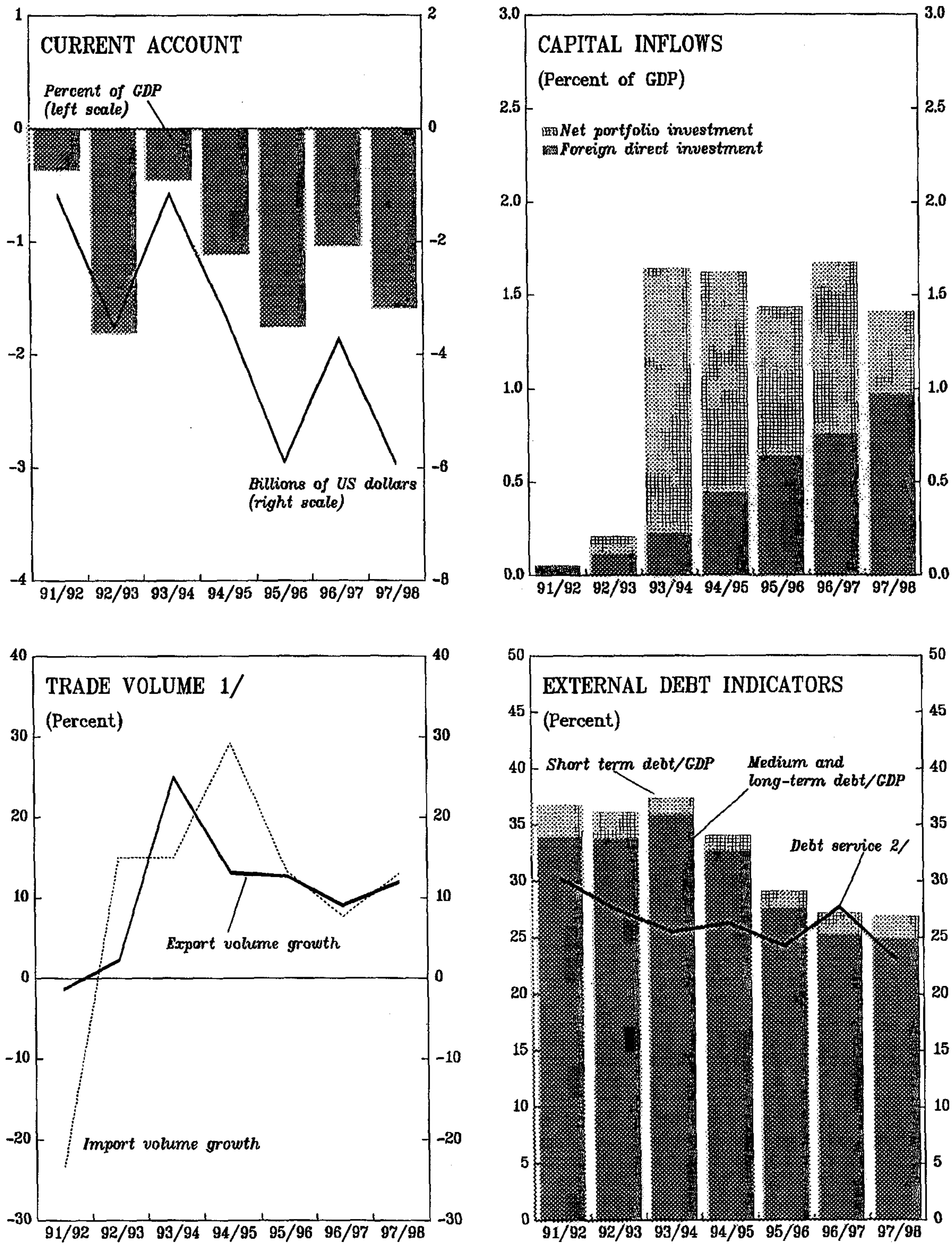
Sources: Data provided by the Indian authorities; and staff estimates.

1/ 3-month moving average, based on US$ values.

CHART V.2

INDIA

SELECTED EXTERNAL INDICATORS, 1991/92-1997/98



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

1/ Merchandise trade only; volume estimates are derived from partner country trade price deflators from the WEO database.
2/ In percent of current receipts.

Box V.1. Liberalization of Gold and Silver Imports

India is the world's largest gold consuming market, according to data from the World Gold Council (WGC), an organization of gold producers. Apart from commercial uses (which include the manufacturing of jewelry for exports), gold has traditionally been used in India as a preferred asset for household saving.

India further liberalized its import policy for gold and silver in October 1997. Eleven nominated agencies were authorized by the RBI to import without limits gold and silver for sale in the domestic market. No licence is required for this purpose, and the import duty of Rs 22 per gram of gold and Rs 0.50 per gram of silver can now be paid in rupees. Previously, gold and silver could legally be imported by returning nonresident Indians (subject to certain rules), and by the nominated agencies but only for exporters of jewelry; all others had to obtain special import licences.

The liberalization represented a step toward full capital account convertibility, in line with the report of the Committee on Capital Account Convertibility (June 1997), which viewed the liberalization of gold imports as a prerequisite. The liberalization is expected to curb smuggling and raise customs revenue by bringing into official channels gold and silver imports.

Officially recorded imports of gold and silver tripled to $2.9 billion in 1997/98. In volume terms, the WGC reports that gold imports rose from 344 tons in 1996/97 to 542 tons in 1997/98 (an increase of about 60 percent). It is estimated that gold imports account for about three–quarters of overall demand in India. Following the liberalization, the premium between the domestic and the international price of gold fell from 20 percent to around 6 percent in March 1998.

Sources: Government of India, Economic Survey 1997/98; and World Gold Council, Gold Demand Trends, various issues.

trade deficit to 4.1 percent of GDP in 1997/98 (from 4 percent of GDP during the previous year), the increase in the current account deficit was mainly the result of a smaller surplus in the **invisibles account**. The contributing factors included a deterioration in the nonfactor services balance, and rising outflows of investment income. By contrast, private transfers—consisting largely of remittances by expatriate Indians—rose by $1 billion to an estimated $12.4 billion in 1997/98, benefiting from the repatriation of a large part of the redemption proceeds of the India Development Bonds that matured late in the previous year as well as the continued trend of bringing more of these transfers through official channels.

C. Capital Account

65. Developments in the **capital account** during 1997/98 were dominated by the sharp decline in inflows of portfolio investment, which reached their lowest level since 1992/93. Inflows of **portfolio investment**—comprising purchases of equity and debt instruments by foreign institutional investors (FIIs), and issues of Global Depository Receipts (GDRs) on Euro markets—are estimated to have fallen sharply from $3.3 billion in 1996/97 to $1.6 billion in 1997/98. In particular, inflows of foreign institutional investment fell by about $1 billion in 1997/98 as robust inflows in the first half of the year turned to modest net outflows in the second half (see Chart V.1), responding to changes in investor sentiment toward emerging markets following the Asian crisis. These net outflows in late 1997 were the first ever recorded since FIIs where allowed in the country in January 1993. However, overall contagion from the Asian crisis has been limited due in large part to the relatively small external exposure of the banking and corporate sectors, and the relatively limited dependence on direct financial links with countries in the region (Box V.2). GDR issues in 1997/98 raised $0.6 billion, about half the inflow registered in the previous year, mirroring the slowing of the government's divestment program.[32]

66. **Foreign direct investment** (FDI) rose by an estimated $0.6 billion to $3.1 billion in 1997/98, as longer term considerations about investment opportunities in India prevailed in the general reassessment of emerging markets following the Asian crisis. FDI was particularly strong in the engineering, chemicals, and food and dairy sectors. The actual inflow of FDI in relation to FDI approvals is estimated to have remained at around 21 percent during 1997/98.

67. Net **external commercial borrowing** (ECB) rose by $2.5 billion to an estimated $3.5 billion in 1997/98, benefiting from the return to lower levels of ECB amortization payments, after peaking in 1996/97 with the large repayments associated with the India Development Bonds. Disbursements fell marginally to $5.6 billion during 1997/98 from $5.7 billion during the previous year. Responding to strong corporate demand for ECBs, disbursements were initially strong in the first half of the year. However, the flow slowed in

[32]There was only one GDR issue in 1997/98, by MTNL (a basic–service telephone company). The year's inflows included part of the proceeds from the GDR issue by VSNL (a long–distance telephone company) in March 1997 that were booked in 1997/98.

Box V.2. India's Economic Links with the Region

Trade flows

Trade flows represent the main economic link between India and other Asian economies. The share of all Asian countries in India's exports increased from 24 percent in 1990/91 to 29 percent in 1996/97, with the trend broadly continuing in 1997/98 despite declining exports to the countries primarily affected by the financial crisis. Exports to the subset of Southeast and East Asian countries account for about 20 percent of India's exports (table below), while imports from those countries account for about 15 percent of total imports.

India: Export Performance, 1996/97-1997/98 1/

(In percent, unless otherwise specified)

	1996/97	1997/98	1998, Q1
Growth in export value (U.S. dollars)	4.1	2.6	-3.5
Japan	-9.5	-7.3	-12.2
ASEAN–4 + Korea 2/	5.6	-20.2	-39.5
Hong Kong and Singapore	3.3	-6.8	...
European Union 3/	-0.7	2.5	1.3
U.S.	18.7	1.1	-1.0
Share of exports to:			
Japan	6.1	5.5	5.1
ASEAN–4 + Korea 2/	6.3	4.9	3.8
Hong Kong and Singapore	8.5	7.8	7.6
European Union 3/	25.9	25.8	26.9
U.S.	19.8	19.5	19.4
Memorandum items (percent of GDP):			
Exports of goods	9.4	9.2	...
Imports of goods	13.4	13.3	...

Sources: Ministry of Commerce; and staff estimates.

1/ April–March fiscal year.
2/ Annual figures for ASEAN–4 exclude the Philippines.
3/ Excluding Austria.

Inflows of portfolio and foreign direct investment

Portfolio and foreign direct investment (FDI) flows from Southeast and East Asian countries do not represent a major component of total inflows. Among Asian countries, the main sources of FDI inflows are Japan (5 percent of total FDI in 1996/97), Singapore (4 percent), and Korea (3 percent). The primary source of FDI inflows is the offshore financial center of Mauritius (41 percent), largely because of the double taxation treaty between the two countries, which favors the routing of investment from third countries through Mauritius. Other important sources of FDI inflows are the U.S.A. (12 percent), Germany (8 percent), and the Netherlands (6 percent). About one–quarter of FDI is by non–resident Indians who are allowed to invest in Indian companies subject to an aggregate ceiling of 10 percent of the company's paid–up capital. In 1997/98, portfolio and FDI inflows amounted to 0.4 percent and 0.8 percent of GDP, respectively.

the second half of the year as Indian corporations postponed overseas debt offerings in response to higher spreads for Indian debt issued overseas in the wake of the Asian financial crisis. For example, at the height of the crisis, secondary market spreads for benchmark Indian debt over U.S. treasury notes widened from 100 basis points to over 450 basis points (Chart V.3). As a result, actual utilization of ECB funds in 1997/98 amounted to about 60 percent of approvals.[33]

68. Net accruals under **nonresident Indian (NRI) deposit schemes** are estimated to have declined from $3.5 billion in 1996/97 to $1.1 billion in 1997/98, mainly on account of the repayment of $2.3 billion under the FCNR(A) deposit scheme, which matured in August 1997. Net inflows to other NRI deposit schemes slowed down considerably in 1997/98, partly due to a decline in the relative rates of return of these schemes.

69. India's **external debt** indicators continued to improve in 1997/98. The increased reliance on nondebt creating capital flows in recent years has been reflected in a steady decline in the debt–to–GDP ratio. Total external liabilities stood at $92.9 billion at end–September 1997, equivalent to about 25 percent of GDP (Box V.3). Amortization and interest payments in 1997/98 are estimated at about $13 billion, returning to lower levels after peaking in 1995/96 and 1996/97.

D. Exchange Rate and International Reserves

70. Following a period of relative stability in exchange markets, the **exchange rate** of the rupee came under pressure beginning in August 1997, partly reflecting a spillover from the Asian crisis. The pressure on the rupee intensified in November 1997 and subsided only after the RBI forcefully tightened monetary conditions in January 1998. The authorities also resorted to administrative measures in December 1997 to reduce the scope for leads and lags in trade financing. The rupee depreciated from Rs 35.7 per dollar in mid–August 1997 to Rs 39.5 per dollar at end–March 1998, a decline of nearly 11 percent. More recently, the pressure on the rupee resumed in May 1998 in the aftermath of sanctions imposed on India, resulting in a further decline of 8 percent against the dollar through end–July 1998.[34] The

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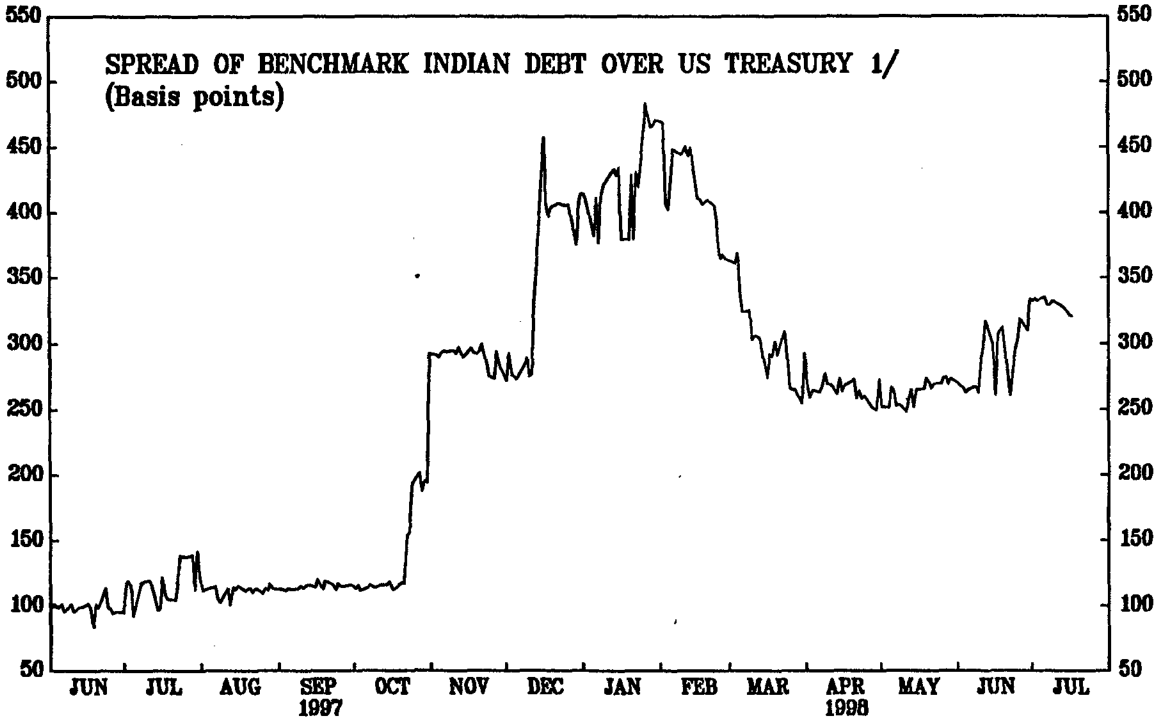
[33]The aggregate indicative ceiling on approvals was initially set at $8 billion for 1997/98 but was subsequently raised to $9 billion in September 1997; approvals reached $9.3 billion in 1997/98. The ceiling in 1996/97 was $7.5 billion, but approvals totaled $8.3 billion.

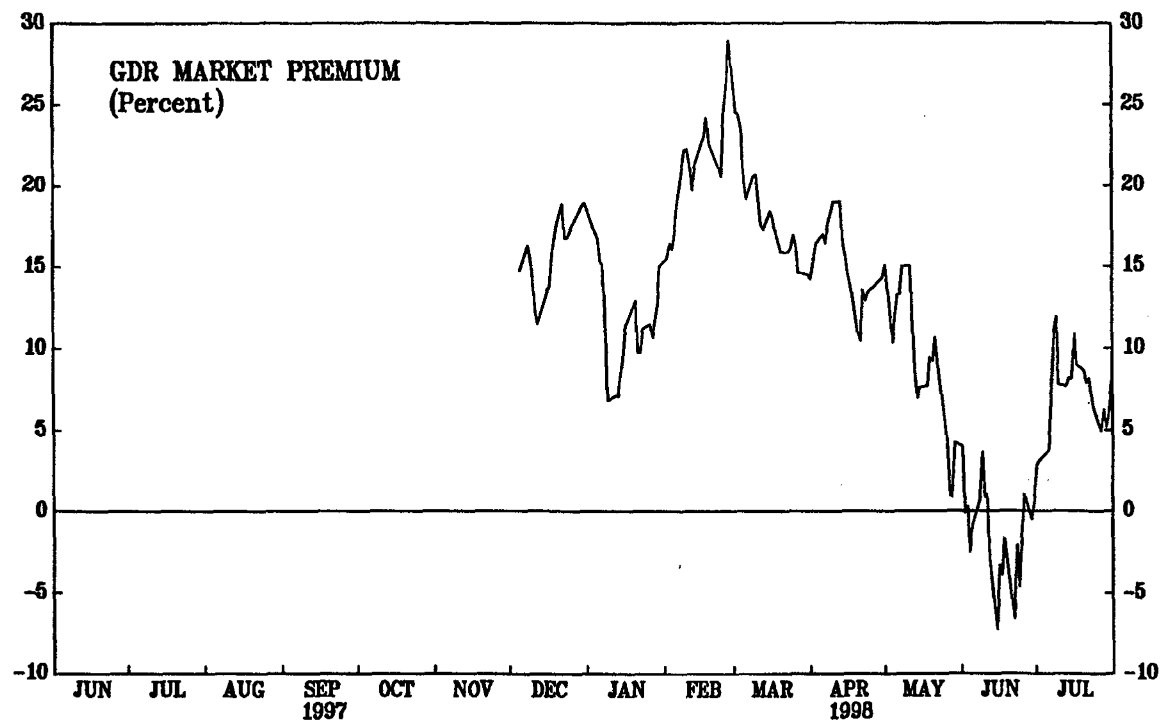
[34]Several countries have announced their intention to impose sanctions against India because of the nuclear tests conducted in May 1998. The sanctions generally involve terminating or reducing new bilateral aid commitments. Although the sanctions imposed by the United States are potentially more wide ranging, a temporary waiver was approved by the U.S. Senate on July 14 which provides the U.S. administration the authority to lift most of the sanctions for a limited period of time.

CHART V.3

INDIA

FINANCIAL MARKET INDICATORS, 1997-98





Source: HSBC James Capel and Datastream.

1/ The benchmark Indian debt is taken as the ICICI 7 1/8% bond due in 2003.

Box V.3. India's External Debt

India's external debt—currently at about 25 percent of GDP—has been on a declining trend in recent years (table below). Short-term liabilities comprise only a small fraction of total liabilities, and a substantial part of medium-to-long-term liabilities are concessional.

Total external liabilities (including deposits of nonresident Indians) stood at $92.9 billion at end-September 1997. Over 90 percent of these liabilities have medium-to-long term contracted maturities. About half of total debt is owed by the government. Separate data on external liabilities of public enterprises are not available, but such liabilities are estimated to be a sizable proportion of total external debt. External debt statistics are compiled and presented only on a contracted maturity basis, and they are usually available on an annual basis with a six month lag.

Most of medium and long-term debt (MLT) at end-September 1997 had relatively long contracted maturities: close to half of MLT debt was concessional (e.g., IDA credits), while about 15 percent was external commercial borrowing (ECB), which is commercial debt tightly controlled by the government with minimum contracted maturities of seven years, except for infrastructure projects (five years), and export-oriented companies (three years).

Official data on **short-term liabilities** are not comprehensive, and differ from the data obtained from other sources such as the Bank for International Settlements (BIS). The main reasons for the discrepancy relate to differences in coverage and in the reporting of data by contracted versus residual maturity. Short-term liabilities in official statistics include nonresident Indian (NRI) deposits, but exclude LC-based trade credits of less than six months for which no statistics are available. The **BIS** reports higher short-term liabilities at end-December 1997 on a residual maturity basis (see table below), but this figure does not cover NRI deposits, although it includes short-term trade credits.

Table. India: External Debt, 1994–97

(In billions of U.S. dollars; end of March, unless otherwise specified)

	1994	1995	1996	1997	Latest 1/
External debt	**92.7**	**99.0**	**92.2**	**92.2**	**92.9**
Medium and long term	89.1	94.7	87.2	85.5	87.0
Of which: Nonresident Indian deposits	*12.7*	*12.4*	*11.0*	*11.0*	*12.0*
External commercial borrowing	*12.4*	*13.0*	*12.7*	*13.8*	14.6
Short term	3.6	4.3	5.0	6.7	5.8
Nonresident Indian deposits	*1.8*	*2.3*	*2.9*	*3.8*	*2.3*
Other (primarily trade related)	*1.8*	*2.0*	*2.2*	*3.0*	*3.6*
Memorandum items:					
Short-term debt according to BIS (end of December)	7.2	7.7	7.1	7.6	...
Concessional debt (percent of total)	44.4	45.3	45.5	42.8	41.4
External debt (percent of GDP)	35.9	32.6	27.6	25.6	24.8

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

1/ End of September 1997.

rupee has declined by 4.2 percent in real effective terms since the onset of the Asian crisis in July 1997 (Chart V.4).[35]

71. Faced with strong capital inflows in the early part of 1997/98, the RBI sought to prevent a real appreciation on the rupee by accumulating **foreign exchange reserves**. With capital inflows weakening and the turbulence in the foreign exchange market intensifying in the second half of the year, the RBI initially intervened heavily in spot and forward markets to prevent large daily fluctuations in the exchange rate that could have provoked bandwagon effects. Faced with a reserve loss of about $2.6 billion (including forward obligations) during November 1997, and continued pressure on the rupee, the RBI subsequently abandoned active intervention.[36] For 1997/98 as a whole, foreign currency reserves rose by about $3.6 billion to $26 billion (about 6¼ months of imports). Net of forward liabilities, foreign currency reserves stood at $24.1 billion at end–March 1997, representing a rise of $2.1 billion compared to end–March 1996.[37]

E. External Sector Reforms

72. Further steps were taken to phase out India's **quantitative restrictions (QRs) on imports**. Following the removal of import restrictions on 542 items (out of 3,256 items, most of them consumer goods) announced with the Export and Import (EXIM) policy statement for 1997–2000, the removal of restrictions on 340 additional items was announced in April 1998 under a modified EXIM policy statement. These were the first steps in the implementation of the agreement reached with trading partners under the WTO to phase out QRs on imports over a period of six years. However, a dispute settlement panel was established at the WTO in November 1997 to adjudicate the complaint of the United States against India's QRs, but it has yet to reach a decision. The modified EXIM policy also strengthened antidumping mechanisms by setting up an independent directorate with full power to deal with dumping cases. While no major new export incentive schemes were announced, the modified EXIM policy introduced measures to boost exports, such as simplifying and decentralizing bureaucratic procedures for exporters, and making it easier for companies in key export sectors to import capital goods.

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[35] A more detailed discussion of exchange rate developments and the related issue of competitiveness is contained in the paper on "Exports and Competitiveness" in the accompanying *Selected Issues* volume.

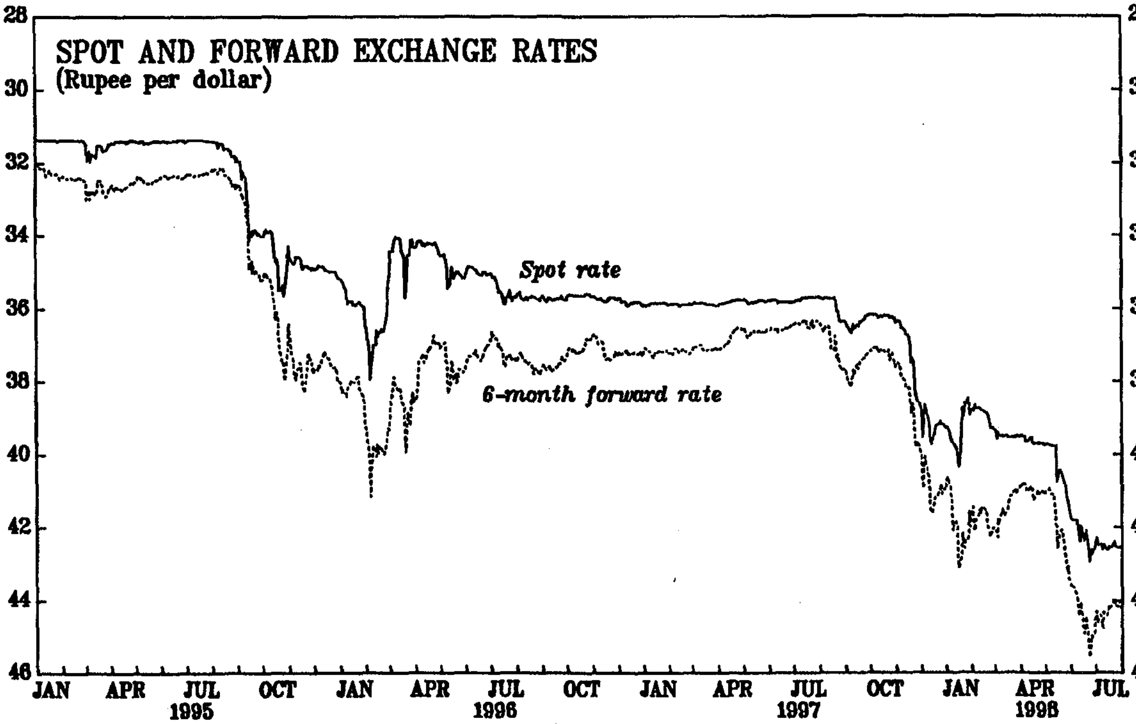
[36] For a discussion of developments in foreign exchange markets, including steps taken by the RBI to curtail volatility in the market, see the paper on "Foreign Exchange Markets: Developments and Issues" in the accompanying *Selected Issues* volume.

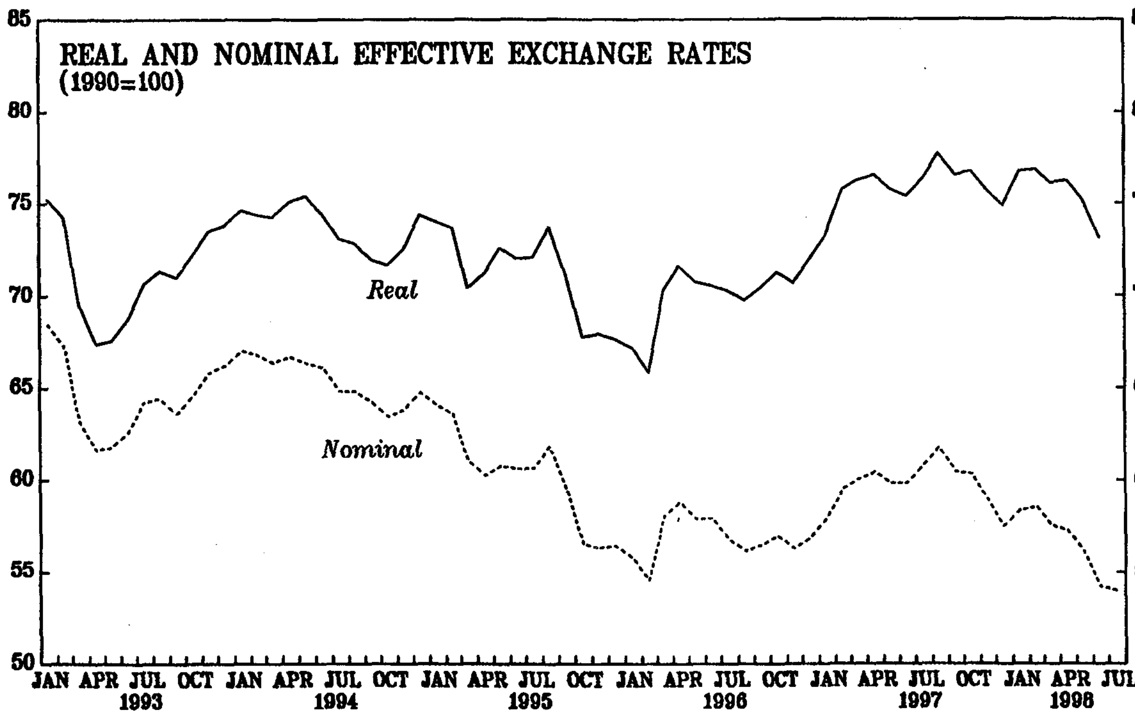
[37] At end–June 1998, foreign currency reserves (net of forward liabilities) stood at $22.5 billion.

CHART V.4

INDIA

EXCHANGE RATE DEVELOPMENTS, 1993-98





Sources: IMF, Information Notice System, International Financial Statistics; WEFA; and staff estimates.

73. The government signed the **WTO agreement on trade in financial services** in December 1997. Under the agreement, India will give MFN status to all foreign banks, and foreign banks will be able to open up twelve branches a year in India, instead of the present eight.

74. The substantial progress made in lowering **import tariffs** with the reductions included in the 1997/98 budget was reversed beginning in September 1997. The 2 percent surcharge introduced in the 1996/97 budget was raised to 5 percent for all nonpetroleum imports in September 1997. The 1998/99 budget imposed a special import duty of 4 percent on most imports, effectively raising the maximum import tariff to over 49 percent (Table V.2).[38]

Table V.2. India: Tariff Reform, 1994/95–1998/99

(End of period; in percent)

	1994/95	1995/96	1996/97	1997/98	1998/99
Maximum tariff	65	50	52	42	49 1/
Average tariff (import weighted)	33	27	25	25	30

Sources: Data provided by the Indian authorities; and the World Bank.

1/ Including surcharges and special import duties but excluding countervailing duties.

75. Over the past year, the authorities have taken significant steps toward **capital account convertibility**. In addition to relaxing restrictions on banks' overseas borrowing and investing activities, the norms for Indian investment overseas have been liberalized (Box V.4). External commercial borrowing guidelines were relaxed in 1997/98 with the intention to facilitate access to overseas debt markets. Against the backdrop of the Asian financial crisis, revised ECB guidelines were issued in April 1998. The revised guidelines maintained virtually all controls over maturities, costs, and end–use of funds, relaxing only some ECB norms for export and shipping companies. Moreover, the guidelines maintained the existing aggregate indicative ceiling on approvals at $9 billion for 1998/99, and allowed domestic refinancing by Indian corporations of up to 20 percent of outstanding ECBs to take advantage of falling secondary–market prices of Indian debt overseas. The measure was withdrawn in July 1998, in view of the prevailing market conditions.

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[38]The actual increase exceeds 4 percent since the special import duty is applied on the sum of the c.i.f. cost of imports and existing countervailing duties.

Box V.4. Capital Account Liberalization

The report of the **Committee on Capital Account Convertibility** was released in June 1997. The report called for major progress toward capital account liberalization over the next three years, including a substantial further easing of controls on capital inflows, and steps to permit residents to invest in overseas assets. The report emphasized that liberalization would need to go hand–in–hand with critical domestic adjustments, including fiscal consolidation, enhanced RBI independence, and a major strengthening of the financial system.

Since the release of the report, a number of important steps have been taken:

- The norms for **Indian investment overseas** through two fast track routes were liberalized, and guidelines for Indian investment in joint ventures abroad were relaxed in August 1997.
- Foreign institutional investors were allowed to seek forward exchange for their debt exposures (August 1997).
- Mutual funds registered in India were allowed to **invest in overseas markets** subject to an individual ceiling of $50 million and an initial aggregate ceiling of $500 million (October 1997).
- Prior approval by the RBI is no longer required by Indian **project exporters** executing projects abroad, and by corporate entities opening **offices abroad** (October 1997).
- Instead of the previous uniform limit of $10 million, **banks' overseas borrowing** for use in India, and **banks' investment in overseas money markets** was permitted up to 15 percent of Tier–1 capital (October 1997).
- Banks were allowed to provide **credit facilities to Indian joint ventures and subsidiaries abroad**, subject to a limit of 5 percent of Tier–1 capital (October 1997).
- Foreign exchange earners were allowed to retain 50 percent of their **exchange earnings** in foreign currency accounts.
- Gold and silver imports were liberalized in October 1997.
- **Foreign institutional investors** were allowed to invest in Treasury bills (April 1998).
- **ECB guidelines** for exporters and shipping companies were eased in April 1998, facilitating overseas borrowing by eligible corporations.
- Restrictions on end use of **GDR funds** were eased in May 1998.

76. India accepted the obligations of **Article VIII**, Sections 2, 3, and 4 of the Fund's Articles of Agreement in August 1994, although a number of restrictions remained in place. Since then, foreign exchange has been freely provided for payments of most current account transactions, and progress has been made in eliminating some of the remaining restrictions. In particular: (i) restrictions on repatriating current investment income have been eliminated starting with income earned in the 1996/97 tax year; (ii) the multiple currency practice associated with existing exchange rate guarantees on nonresident deposits was phased out in August 1997, as the last deposits under the scheme matured;[39] and (iii) restrictions on the transfers of past income on investment by nonresident Indians and overseas commercial bodies were removed in 1996/97, in line with the three year phase out period announced when India accepted the obligations of Article VIII. The authorities have also taken steps to simplify the administration of the exchange control system by delegating further powers to authorized dealers to provide foreign exchange for various transactions of current nature without requiring the approval of the RBI. Moreover, a new Foreign Exchange Management Act, aimed at streamlining the foreign exchange regulatory structure, was presented to Parliament in early August 1998.

77. Other restrictions that have remained in place are:

(i) an Indo–Russian debt agreement under which debt service on the agreement can only be used for the purchase of Indian exports;

(ii) bilateral trade and payments agreements with Bulgaria, the former German Democratic Republic, the Czech Republic, Poland, Romania, the Slovak Republic, and the former Yugoslavia;

(iii) a dividend balancing requirement under which transfers abroad of dividends by nonresident investors in consumer goods industries must be balanced by export earnings for a period of seven years from the date of commencement of commercial production;

(iv) a restriction on remittances for overseas TV advertising by nonexporters and exporters without an adequate track record (i.e., export earnings of more than Rs 1 million during the previous two years);

(v) a restriction on dividend payments on investments by nonresidents in air taxi services. There is currently a lock–in period of five years for such investments, and dividend payments are not allowed to exceed accumulated foreign exchange earnings; and

(vi) a restriction on repatriation of principal from loans of nonresident Indians to domestic relatives made on a nonrepatriable basis. (Permission may be granted for interest–free loans on a repatriable basis up to $250,000 with a maturity of seven years.)

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[39]New deposits under the scheme had not been accepted since August 1994.

Table 1. India: GDP at Factor Cost by Sector of Origin, 1991/92-1997/98

	1991/92	1992/93	1993/94	1994/95	1995/96	Est. 1996/97	Est. 1997/98
	(In billions of rupees, at current prices)						
Agriculture	1,727.7	1,930.5	2,237.1	2,590.6	2,768.5	3,101.4	...
Mining and quarrying	128.0	145.9	168.2	188.8	205.5	205.4	...
Manufacturing	963.1	1,110.4	1,276.5	1,597.1	1,983.5	2,226.1	...
Electricity, gas, and water	127.2	161.1	188.8	236.6	280.2	328.6	...
Construction	322.5	367.0	407.0	479.8	584.2	685.8	...
Trade, hotels, and restaurants	708.1	827.7	980.2	1,184.9	1,428.1	1,676.1	...
Transport and communications	410.0	488.9	561.0	666.8	753.7	886.1	...
Finance	490.6	526.4	671.5	784.7	944.8	1,080.1	...
Community services	650.6	749.8	838.6	950.9	1,114.5	1,302.6	...
							...
GDP at factor cost	5,527.7	6,307.6	7,328.9	8,680.2	10,063.0	11,492.2	...
	(In billions of rupees, at constant 1980/81 prices)						
Agriculture	641.2	680.1	705.1	741.3	719.1	775.6	760.1
Mining and quarrying	43.6	44.1	44.9	47.5	51.5	51.4	54.6
Manufacturing	432.0	450.1	487.7	545.7	622.1	667.9	708.6
Electricity, gas, and water	52.6	57.0	60.6	66.3	71.1	74.7	79.5
Construction	100.5	103.9	104.8	111.3	122.2	128.5	132.6
Trade, hotels, and restaurants	268.3	286.5	309.2	346.5	399.7	433.1	635.3 1/
Transport and communications	117.9	123.7	130.7	140.9	152.6	166.6	...
Finance	239.7	250.8	282.1	302.3	331.5	360.5	394.6
Community services	244.1	256.2	266.3	275.1	291.5	310.2	353.0
GDP at factor cost	2,139.8	2,252.4	2,391.4	2,576.9	2,761.3	2,968.5	3,118.3
	(Percentage change at constant prices)						
GDP at factor cost	0.8	5.3	6.2	7.8	7.2	7.5	5.0
Agriculture	2.3	6.1	3.7	5.1	-3.0	7.9	-2.0
Industry 2/	-1.3	4.2	6.6	10.4	12.5	6.4	5.7
Services	4.9	5.4	7.7	7.7	10.4	8.1	8.9

Source: Data provided by the Indian authorities.

1/ Trade, hotels and restaurants and transport and communication combined.

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

Table 2. India: GDP at Market Prices by Expenditure Components, 1991/92-1996/97

	1991/92	1992/93	1993/94	1994/95	Est. 1995/96	Est. 1996/97
	(In billions of rupees, at current prices)					
Private consumption	3,818.9	4,301.8	4,933.8	5,704.2	6,434.4	7,296.3
Government consumption	694.6	786.0	899.3	1,005.0	1,159.6	1,321.7
Gross fixed capital formation	1,365.0	1,588.6	1,747.0	2,164.1	2,715.0	3,059.8
Construction	669.3	756.3	810.3	946.5	1,150.3	1,310.4
Machinery and equipment	695.7	832.3	936.7	1,217.6	1,565.6	1,749.4
Change in stocks	35.6	108.0	-21.7	249.7	333.9	158.6
Exports of goods and services	562.5	673.1	861.1	1,016.1	1,307.3	...
Imports of goods and services	562.5	730.0	857.0	1,047.1	1,449.5	...
GDP at market prices 1/	6,168.0	7,059.2	8,107.5	9,634.9	11,189.6	12,769.7
	(In billions of rupees, at constant 1980/81 prices)					
Private consumption	1,581.8	1,645.9	1,723.3	1,823.8	1,919.7	2,031.7
Government consumption	259.1	267.8	285.0	290.3	304.4	320.0
Gross fixed capital formation	490.5	524.6	553.4	638.2	744.8	793.4
Construction	191.9	197.5	194.3	209.7	229.7	244.3
Machinery and equipment	298.6	327.1	359.1	428.5	515.1	549.1
Change in stocks	15.9	44.3	-9.9	86.3	104.3	50.7
GDP at market prices 1/	2,412.6	2,543.6	2,669.3	2,886.4	3,099.2	3,327.2
GDP deflator	255.7	277.5	303.7	333.8	361.0	383.8
	(Percentage change at constant prices)					
Consumption	1.4	4.0	4.9	5.3	5.2	5.7
Private	1.8	4.0	4.7	5.8	5.3	5.8
Government	-0.6	3.3	6.4	1.9	4.9	5.1
Gross fixed capital formation	-4.0	7.0	5.5	15.3	16.7	6.5
Construction	2.3	2.9	-1.6	7.9	9.5	6.4
Machinery and equipment	-7.7	9.6	9.8	19.3	20.2	6.6
GDP at market prices	0.4	5.4	4.9	8.1	7.4	7.4
GDP at factor cost	0.8	5.3	6.2	7.8	7.2	7.5
GDP deflator at market prices	14.7	8.6	9.4	9.9	8.1	6.3

Source: Data provided by the Indian authorities.

1/ Includes statistical discrepancy.

Table 3. India: Industrial Production Index, 1994/95-1997/98

(Annual percentage change)

	Weight	1994/95	1995/96	1996/97	1997/98
All industries	1,000.0	8.4	12.7	5.6	6.6
Manufacturing	793.58	8.5	13.8	6.7	6.6
Food	90.83	21.6	6.8	3.4	4.1
Beverages, tobacco and related products	23.82	3.0	13.4	13.5	18.5
Cotton textiles	55.18	-0.9	10.6	12.0	4.1
Wool, silk and man-made fibre textiles	22.58	14.5	14.7	10.5	13.3
Jute textiles	5.90	-4.9	7.7	-4.3	16.4
Textile products (including wearing apparel)	25.37	-1.5	35.7	9.5	8.1
Wood products; furniture and fixtures	27.01	-0.7	24.1	7.0	-3.4
Paper products	26.52	8.6	15.6	9.1	6.7
Leather and fur products	11.39	-13.3	14.2	9.4	4.2
Rubber, plastic, petroleum and coal products	57.28	7.7	7.8	2.0	5.0
Chemical products	140.02	5.3	11.3	4.7	13.9
Non-metallic mineral products	43.97	8.0	21.9	7.7	19.9
Base metals and alloys	74.53	13.1	15.8	6.7	1.0
Metals except machinery	28.10	4.7	-3.8	10.3	7.4
Machinery and equip., other than trans. equip.	95.65	12.8	19.5	5.2	5.8
Transport equipment	39.84	13.2	17.4	12.9	-1.3
Other manufacturing industries	25.59	4.0	13.2	5.2	-3.2
Mining and quarrying	104.73	7.6	9.5	-1.9	5.6
Electricity generation	101.69	8.5	8.1	3.9	6.9
Industrial production index classified by use:					
Basic goods	355.5	8.9	10.7	3.1	6.1
Capital goods	96.7	5.7	4.1	9.3	0.7
Intermediate goods	264.4	5.3	19.1	8.1	8.1
Consumer goods industries	283.6	11.8	12.3	5.2	6.0
Durables	51.2	16.2	25.8	4.7	7.7
Nondurables	232.4	10.8	9.3	5.3	5.5

Source: Data provided by the Indian authorities.

Table 4. India: Agricultural Production and Yields, 1992/93-1996/97 1/

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

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Production					
Foodgrains	179.5	184.3	191.5	180.4	199.3
Rice	72.9	80.3	81.8	77.0	81.3
Wheat	57.2	59.8	65.8	62.1	69.3
Coarse grains	36.6	30.9	29.8	29.0	34.3
Pulses	12.8	13.3	14.1	12.3	14.4
Oilseeds 2/	20.1	21.5	21.3	22.1	25.0
Cotton 3/	11.4	10.7	11.9	12.9	14.3
Jute 4/	7.5	7.3	8.0	7.7	9.8
Sugarcane	228.0	229.7	275.5	281.1	277.3
Tea 5/	0.8	0.8	0.8	0.8	...
Yields					
Foodgrains	1,457	1,501	1,548	1,491	1,601
Rice	1,744	1,888	1,911	1,797	1,879
Wheat	2,327	2,380	2,559	2,483	2,671
Maize	1,676	1,602	1,448	1,595	1,698
Pulses	573	598	610	552	623
Oilseeds	797	799	843	851	931
Cotton	257	249	257	242	266
Jute	1,857	1,907	1,949	1,875	2,008
Sugarcane 6/	64	67	71	68	67
Tea	1,819	1,768	1,787	...	...
Production of:					
Kharif foodgrains	101.5	100.4	100.1	95.1	104.4
Rabi foodgrains	78.0	83.9	90.4	85.3	94.9

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

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

Table 5. India: Saving and Investment, 1991/92-1996/97

(In percent of GDP at market prices)

	1991/92	1992/93	1993/94	1994/95	1995/96	Est. 1996/97
Gross domestic saving	22.8	22.0	22.7	25.6	25.3	26.1
Private sector	20.9	20.5	22.1	23.8	23.0	24.2
Household saving	17.7	17.7	18.5	20.3	18.8	20.3
Physical saving	7.7	...	...	...	10.3	9.6
Financial saving	10.1	...	...	...	8.6	10.7
Corporate saving	3.2	2.8	3.6	3.5	4.2	3.9
Public sector	1.9	1.5	0.6	1.8	2.3	1.9
Gross capital formation 1/	23.4	23.9	23.3	26.9	27.1	27.3
Private sector 1/	14.2	15.0	14.7	17.9	19.2	19.9
Public sector	9.2	8.9	8.6	9.0	7.9	7.4
Saving-investment gap	-0.6	-1.9	-0.6	-1.3	-1.8	-1.2
Private sector	6.7	5.5	7.4	5.9	3.8	4.3
Public sector	-7.3	-7.4	-8.0	-7.2	-5.6	-5.5

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

1/ Includes errors and omissions.

Table 6. India: Energy Sector Statistics, 1992/93-1997/98

(In millions of metric tons)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Crude petroleum						
Domestic production	27.0	27.0	32.2	35.1	32.9	...
Imports	29.2	30.8	27.3	27.3	33.9	...
Refinery throughput	53.5	54.3	56.5	58.7	62.9	...
Petroleum products						
Domestic production	50.4	51.1	52.9	55.1	59.0	...
Net imports	7.6	8.1	10.7	16.9	17.1	...
Imports	11.3	12.1	14.0	20.3	20.3	...
Exports	3.7	4.0	3.3	3.4	3.2	...
Domestic consumption	58.9	60.8	67.4 1/	74.7 1/	79.2 1/	...
Coal						
Output	238.3	246.0	253.8	270.1	285.6	295.9
Stocks at end-period	51.3 2/	50.7 2/	31.6 3/	30.7 3/	28.0 3/	29.1 3/
Electricity (in billion kWh)						
Power generation 4/	301.1	323.5	351.0	380.1	394.4	420.6
Thermal	224.5	247.7	262.9	299.6	316.8	336.1
Hydro	69.8	70.4	82.5	72.5	68.6	74.5
Nuclear	6.8	5.4	5.6	8.0	9.0	10.0
Plant load factor for thermal power (in percent)	57.1	61.0	60.0	63.0	64.4	64.7

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

1/ Including imports by private parties.
2/ Book stock.
3/ Vendible stock.
4/ Utilities only.

Table 7. India: Employment and Labor Statistics, 1992/93-1996/97

(In millions of persons, end of period)

			Estimated		
	1992/93	1993/94	1994/95	1995/96	1996/97 1/
Employment in the organized sector 2/	27.2	27.4	27.5	27.9	28.3
Public sector	19.3	19.4	19.5	19.4	19.6
Central Government	3.4	3.4	3.4	3.4	3.3
State Government	7.3	7.3	7.4	7.4	7.6
Public enterprises	6.5	6.5	6.5	6.5	6.5
Local authorities	2.2	2.2	2.2	2.2	2.2
Private sector	7.9	7.9	8.1	8.5	8.7
Agriculture	0.9	0.9	0.9	0.9	0.9
Manufacturing	4.5	4.6	4.7	5.0	5.1
Other	2.4	2.4	2.4	2.6	2.7
Number of job seekers (end-December)	36.3	36.7	36.7	37.4	39.1 4/
Number of work days lost through industrial disputes 3/	23.0	20.5	17.2	16.6	14.9 5/
Strikes	6.8	5.3	6.5	6.3	6.0 5/
Lockouts	16.2	15.2	12.7	10.4	9.9 5/

Source: Data provided by the Indian authorities.

1/ Data is for end-December 1996, unless otherwise stated.
2/ All establishments in the public sector and nonagricultural private establishments with ten or more employees.
3/ For industrial disputes involving ten or more workers.
4/ End-December 1997.
5/ 1997.

Table 8. India: Price Developments, 1992/93-1997/98

	Weight	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
	(Annual percentage change; end of period)						
Wholesale price index	100.0	7.0	10.8	10.4	5.0	6.9	5.0
Primary articles	32.3	3.0	11.5	12.7	5.4	7.0	5.5
Cereals	6.8	-2.7	15.4	8.4	4.3	18.4	-4.4
Crude oil and natural gas	4.3	1.9	19.9	5.1	--	2.2	6.8
Fruits and vegetables	4.1	9.7	-8.6	10.6	30.1	-0.2	0.9
Oilseeds	3.9	-8.7	14.1	23.2	-5.2	1.4	17.4
Fuel and power	10.7	15.2	13.1	2.4	3.7	16.9	9.4
Oil products	6.7	18.8	6.7	-0.1	0.9	18.7	11.5
Electricity	2.7	9.8	30.7	5.3	9.6	12.0	6.7
Manufactures	57.0	7.9	9.9	10.7	5.0	4.9	3.8
Sugar, etc.	4.1	27.9	21.4	-2.2	-6.0	17.2	16.4
Edible oils	2.4	-7.1	6.3	18.3	-2.3	1.4	2.6
Cotton textiles	6.1	5.5	20.7	14.5	5.0	4.6	2.4
Chemicals, etc.	7.4	12.8	7.6	12.9	5.1	3.4	2.3
Iron and steel	2.4	12.2	8.0	8.0	4.6	4.5	3.7
Nonelectrical machinery	3.3	3.2	3.2	8.1	5.3	8.8	0.4
Electrical machinery	3.0	6.4	7.1	18.4	3.3	-0.5	-0.7
Transport equipment	2.7	2.5	5.4	7.1	6.1	3.8	3.0
Consumer price index	100.0	6.1	9.9	9.7	8.9	10.0	8.3

Source: Data provided by the Indian authorities.

Table 9. India: Consolidated Public Sector Operations, 1993/94-1997/98 1/

	1993/94	1994/95	1995/96	Budget 1996/97	Rev. Est. 1996/97	Budget 1997/98
			(In billions of rupees)			
Total revenue and grants 2/	1,730.8	2,125.6	2,461.2	2,777.1	2,633.7	3,178.0
Tax revenue	1,221.7	1,480.3	1,751.0	2,045.6	2,011.1	2,383.3
Nontax revenue 2/	499.2	635.0	698.8	723.4	610.7	783.7
Grants	9.9	10.4	11.4	8.1	11.9	11.0
Total expenditure and net lending 3/	2,597.9	3,043.4	3,426.5	3,890.3	3,867.5	4,430.5
Overall balance	-867.0	-917.7	-965.3	-1,113.2	-1,233.8	-1,252.5
			(In percent of GDP)			
Total revenue and grants 2/	21.4	22.3	22.0	22.2	20.6	22.1
Total expenditure and net lending 3/	32.1	31.9	30.6	31.1	30.3	30.8
Overall balance	-10.7	-9.6	-8.6	-8.9	-9.7	-8.7
Memorandum items:						
Central Government balance	-7.4	-6.6	-5.5	-5.4	-5.3	-4.9
States' balance	-2.5	-2.9	-2.8	-2.9	-3.3	-3.2
Central public enterprises' balance	-3.1	-2.6	-2.1	-2.5	-2.3	-2.2
Net loans to states by Central Government	1.5	1.5	1.4	1.4	1.4	1.3
Budgetary support to public sector enterprises	0.9	0.9	0.6	0.5	0.5	0.5
Central Government's non-plan loans to public sector enterprises	0.0	0.1	0.1	0.1	0.1	0.1

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

1/ The consolidation covers budgetary transactions at the levels of the Central and State Governments, the departmental undertakings of both levels of Government, the balance of the Oil Coordination Committee, and the central public enterprises.

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

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

Table 10. India: Central Government Revenues, 1993/94-1998/99

(In billions of rupees)

	1993/94	1994/95	1995/96	1996/97	Budget 1997/98	Rev. Est. 1997/98	Budget 1998/99
Tax revenue (including States' share)	757.4	922.9	1,112.4	1,287.6	1,536.4	1,427.2	1,577.0
Taxes on income and profit	199.1	266.5	332.6	385.1	453.6	509.1	484.0
Corporate tax	100.6	138.2	164.9	185.7	218.6	213.6	265.5
Personal income tax	91.2	120.3	156.0	182.3	217.0	187.0	209.3
VDIS 1997	...	...	...	...	...	100.5	...
Interest tax	7.3	8.0	11.7	17.1	18.0	8.0	9.2
Taxes on property	1.7	1.4	1.4	1.0	1.5	1.6	1.7
Estate duty and gift taxes	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Wealth and land taxes	1.5	1.1	1.1	0.8	1.3	1.3	1.5
Stamp duties	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Taxes on goods and services	334.7	387.2	420.8	473.0	555.8	506.5	609.8
Excise taxes	317.0	373.5	401.9	450.1	522.0	477.0	576.9
Sales tax	0.1	1.4	1.2	1.3	1.3	1.5	1.6
Expenditure tax	2.3	2.0	2.3	2.9	2.1	2.1	3.0
Other	15.3	10.3	15.4	18.7	30.4	25.9	28.3
Taxes on international trade	221.9	267.9	357.6	428.5	525.5	410.0	481.5
Import duties	220.8	266.5	356.1	426.8	523.8	408.7	480.1
Export duties and cesses	1.1	1.4	1.5	1.7	1.7	1.3	1.4
Less: States' share of tax revenue	222.9	248.4	293.0	350.6	402.5	435.6	408.5
Tax revenue (net of States' share)	534.5	674.5	819.4	937.0	1,133.9	991.6	1,168.5
Nontax revenue	252.1	275.9	328.7	368.7	448.8	454.5	523.9
Dividends and profits 1/	24.5	27.2	32.5	40.5	60.1	58.6	68.8
Interest	150.8	158.0	184.2	221.1	240.9	253.3	279.2
Oil sector receipts 2/	8.0	12.2	12.6	13.0	13.1	13.7	27.2
Other receipts 3/	68.8	78.5	99.4	94.1	134.7	128.9	148.7
Foreign grants	9.9	10.4	11.4	11.9	11.0	11.7	10.5
Total revenue and grants	796.5	960.8	1,159.4	1,317.7	1,593.7	1,457.7	1,703.0

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

1/ Includes Reserve Bank profits.

2/ Royalties only.

3/ Includes receipts from commercial departments.

Table 11. India: Economic Classification of Central Government Expenditure, 1993/94-1997/98 1/

(In billions of rupees)

	1993/94	1994/95	1995/96	Rev. Est. 1996/97	Budget 1997/98
Current expenditure	1,123.7	1,271.1	1,456.7	1,644.2	1,896.3
Expenditure on goods and services	318.2	348.8	418.7	471.7	567.6
Wages and salaries	133.6	145.0	170.3	196.1	293.5
Other goods and services	184.6	203.8	248.4	275.6	274.1
Interest payments	344.9	414.5	471.3	542.8	633.5
Domestic	307.7	374.2	427.2	497.3	586.0
Foreign	37.2	40.3	44.1	45.5	47.5
Subsidies and current transfers	322.5	349.2	381.9	445.2	484.4
Subsidies	114.8	124.9	132.3	164.2	183.2
Food	55.4	51.0	53.8	60.7	75.0
Fertilizer	45.6	52.4	62.4	60.9	71.9
Export promotion	6.7	6.6	0.1	4.0	4.4
Other	7.1	14.9	16.0	38.6	31.9
Transfers	207.7	224.3	249.6	281.0	301.2
States and Union Territories	117.2	116.1	130.1	143.0	133.1
Local authorities	0.1	0.3	0.3	0.5	0.3
Households	27.4	31.4	36.9	44.2	45.4
Other	63.0	76.5	82.3	93.3	122.4
Unclassified	138.1	158.6	184.8	184.5	210.8
Capital expenditure and net lending	274.9	322.8	319.1	345.3	399.9
Gross fixed capital formation	131.1	147.9	168.5	189.0	219.6
Buildings and construction	65.3	76.6	81.0	84.9	100.1
Machinery and equipment	65.8	71.3	87.5	104.1	119.5
Increase in stocks	-3.4	-4.8	-1.7	-0.8	-0.1
Capital transfers	118.1	139.7	152.6	160.7	176.6
Other levels of government	92.3	86.9	85.7	97.2	100.5
Other	25.8	52.8	66.9	63.5	76.1
Adjustments	-136.6	-172.1	-206.3	-262.1	-261.7
Gross lending less loan repayments	165.7	212.1	206.0	258.5	265.5
Total expenditure and net lending	1,398.6	1,593.9	1,775.8	1,989.5	2,296.2

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

1/ Data have been adjusted to ensure conformity with the presentation in IMF, **Government Finance Statistics Yearbook.**

Table 12. India: Functional Classification of Central Government Expenditure, 1993/94-1997/98 1/

(In billions of rupees)

	1993/94	1994/95	1995/96	Rev. Est. 1996/97	Budget 1997/98
General public services	74.0	93.3	109.6	159.8	196.2
Defense	216.1	228.9	265.3	293.8	354.5
Education	19.5	24.1	31.7	36.5	50.9
Medical and health services	7.0	7.7	7.4	9.7	12.9
Other social and community services	42.8	73.2	94.1	96.4	119.7
Economic services	254.4	312.5	328.4	376.2	421.6
Agriculture	61.8	74.7	82.8	94.7	110.9
Industry and minerals	46.2	55.8	56.4	60.9	55.4
Transport and communications	106.5	128.3	150.0	170.0	199.2
Railways	9.7	11.4	11.4	14.4	18.3
Post and telegraphs	1.4	0.7	0.6	0.6	0.8
Other	28.8	41.6	27.2	35.6	37.0
Other	780.8	884.9	965.9	1,112.3	1,213.2
Interest	344.9	414.5	471.3	542.8	633.5
Pensions	27.4	31.4	36.9	44.2	45.4
Grants to States and Union Territories	209.5	203.0	215.7	240.2	233.5
Loans and advances	199.0	236.0	242.0	285.1	300.8
Adjustments	64.8	31.7	28.4	-23.0	11.9
Total expenditure and gross lending	1,459.4	1,656.3	1,830.8	2,061.7	2,380.9
Less: Loan repayments	60.8	62.4	55.0	72.2	84.7
Total expenditure and net lending	1,398.6	1,593.9	1,775.8	1,989.5	2,296.2

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

1/ Data have been adjusted to ensure conformity with the presentation in IMF, *Government Finance Statistics Yearbook*.

Table 13. India: Central Government Debt, 1993/94-1998/99

(In billions of rupees)

	1993/94	1994/95	1995/96	1996/97	Rev. Est. 1997/98	Budget 1998/99
Domestic debt	4,306.2	4,876.8	5,549.9	6,214.4	7,183.0	8,185.1
Market loans	1,106.1	1,309.1	1,639.9	1,839.8	2,175.0	2,734.3
Treasury bills	409.9	404.9	456.7	647.6	229.0	229.0
91-day	326.0	323.3	437.9	565.2	57.0	57.0
364-day	83.9	81.6	18.8	82.4	172.0	172.0
Special securities 1/	720.5	720.5	720.5	720.5	1,228.6	1,228.6
Small savings	672.8	817.1	917.9	1,039.3	1,253.6	1,428.5
Provident funds	205.9	247.2	296.4	350.3	422.7	517.2
Other 2/	1,191.0	1,378.0	1,518.5	1,616.9	1,874.1	2,047.5
External debt	473.5	509.3	512.5	542.4	552.4	573.0
Total debt	4,779.7	5,386.1	6,062.4	6,756.8	7,735.4	8,758.1
In percent of GDP	59.0	56.5	54.2	52.9	54.6	53.9

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

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

Table 14. India: Finances of States and Union Territories, 1993/94-1997/98

	1993/94	1994/95	1995/96	Budget 1996/97	Rev. Est. 1996/97	Budget 1997/98
			(In billions of rupees)			
Total revenue and grants	1,056.5	1,227.5	1,380.1	1,502.5	1,552.3	1,721.6
Tax revenue	686.7	805.7	931.6	1,072.5	1,074.1	1,249.4
Share of central government revenue	222.4	248.4	293.0	348.4	350.6	402.5
States' taxes	464.2	557.3	638.7	724.2	723.5	846.8
Taxes on income	6.5	7.2	8.4	9.7	10.0	11.4
Taxes on property and capital transactions	43.2	62.9	72.7	81.0	78.9	94.0
Taxes on commodities and services	414.5	487.3	557.6	633.5	634.6	741.5
Of which: Sales tax	276.4	331.5	354.8	444.6	445.1	520.0
Nontax revenue 1/	155.7	216.6	228.9	195.7	238.9	238.7
Grants from Center	214.1	205.2	219.5	234.2	239.3	233.5
Total expenditure	1,262.4	1,504.5	1,694.4	1,367.4	1,970.7	2,176.9
Developmental 2/	893.9	1,043.5	1,148.2	1,255.9	1,365.3	1,424.4
Social services	419.8	488.7	578.4	745.7	690.5	748.5
Economic services	474.1	554.8	569.8	510.2	674.8	675.9
Non-developmental	380.2	495.6	553.8	649.9	638.8	789.3
Of which: Interest payments	165.4	203.4	230.0	276.8	279.2	327.1
Other 3/	-11.6	-34.6	-7.6	-38.4	-33.4	-36.8
Overall balance	-206.0	-277.0	-314.3	-364.9	-418.4	-455.3
Financing	206.0	277.0	314.3	364.9	418.4	455.3
Loans from Center (net)	117.9	141.8	151.8	170.8	176.0	185.9
Other 4/	88.1	135.1	162.5	194.2	242.5	269.4
			(In percent of GDP)			
Total revenue and grants	13.0	12.9	12.3	12.0	12.2	12.0
Tax revenue	8.5	8.4	8.3	8.6	8.4	8.7
Share of central government revenue	2.7	2.6	2.6	2.8	2.7	2.8
States' taxes	5.7	5.8	5.7	5.8	5.7	5.9
Nontax revenue 1/	1.9	2.3	2.0	1.6	1.9	1.7
Grants from Center	2.6	2.2	2.0	1.9	1.9	1.6
Total expenditure	15.6	15.8	15.1	14.9	15.4	15.1
Developmental 2/	11.0	10.9	10.3	10.0	10.7	9.9
Non-developmental	4.7	5.2	4.9	5.2	5.0	5.5
Other 3/	-0.1	-0.4	-0.1	-0.3	-0.3	-0.3
Overall balance	-2.5	-2.9	-2.8	-2.9	-3.3	-3.2

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

1/ Includes surplus of States' public enterprises available for financing of the Plan.

2/ Includes Plan expenditure by state enterprises financed from internal resources, extrabudgetary resources, and borrowing.

3/ Includes recovery of loans and advances.

4/ Market borrowing, other miscellaneous capital receipts, and borrowing from the banking system.

Table 15. India: Central Government Public Enterprises--Summary of Financial Performance, 1987/88-1996/97

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Number of operating enterprises	220	226	233	236	237	239	240	241	239	236
Investment	713.0	856.3	993.3	1,139.0	1,354.5	1,475.9	1,649.6	1,732.9	1,776.0	1,931.2
Capital employed	556.2	676.3	847.6	1,020.8	1,179.9	1,401.1	1,598.4	1,624.5	1,739.5	2,020.2
Gross turnover/sales	812.7	931.4	1,060.7	1,186.8	1,339.1	1,472.3	1,580.5	1,873.6	2,269.2	2,533.7
Gross margin	110.8	134.4	164.1	183.1	222.2	252.3	277.1	333.8	401.6	445.0
Less: Depreciation	41.4	48.7	57.9	72.1	85.5	92.7	91.5	107.5	125.7	139.3
Gross profit	69.4	85.7	106.2	111.0	136.8	159.6	185.6	226.3	275.9	305.7
Less: Interest	35.9	41.7	53.3	76.0	96.7	108.8	119.0	128.6	139.7	151.0
Net profit before tax	33.5	44.1	52.9	35.0	40.0	50.8	66.5	97.7	136.2	154.7
Corporate tax	13.2	14.1	15.0	12.3	16.5	18.0	21.1	25.8	40.5	52.1
Net profit after tax	20.3	29.9	37.9	22.7	23.5	32.7	45.4	71.9	95.7	102.6
Dividends	3.2	3.5	3.2	4.1	6.9	7.9	10.3	14.4	22.1	30.8
Memorandum items (in percent):										
Gross profit/capital employed	12.5	12.7	12.5	10.9	11.6	11.4	11.6	13.9	15.8	15.1
Net profit before tax/capital employed	6.0	6.5	6.2	3.4	3.4	3.6	4.2	6.0	7.8	7.7
Net profit after tax/capital employed	3.6	4.4	4.5	2.2	2.0	2.3	2.8	4.4	5.5	5.1

Source: Government of India, *Public Enteprises Survey*, various issues.

Table 16. India: Distribution of Central Government Public Enterprise Net Profit and Loss, 1987/88-1996/97 1/

(In billions of rupees, unless otherwise noted)

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Enterprises producing goods	17.5	25.5	33.9	19.7	17.7	21.7	33.6	55.9	75.9	76.4
Steel	-0.5	1.9	0.5	-3.5	-6.3	-2.0	-1.2	7.2	10.4	-0.3
Minerals and metals	-1.0	0.4	3.1	2.6	4.4	3.7	2.3	6.3	10.4	6.4
Coal and lignite	-1.5	0.6	1.7	-1.6	2.7	3.7	5.1	2.0	8.5	13.1
Thermal and hydroelectric power	3.4	4.6	6.4	8.5	11.1	10.3	10.1	11.3	16.1	20.5
Petroleum	21.7	25.6	29.0	23.0	17.8	23.3	39.5	45.6	51.5	55.3
Chemicals and fertilizers	-1.1	-2.1	-2.5	-4.0	-4.7	-5.3	-2.9	1.0	-1.8	-6.1
Heavy engineering	0.3	0.8	0.5	-1.3	-1.1	-1.1	-3.7	-4.3	-1.7	1.8
Medium and light engineering	0.5	0.4	0.6	0.6	0.6	1.1	-0.5	-1.7	-4.2	-2.4
Transport equipment	-0.7	-0.7	-0.9	-0.5	-1.2	-1.3	-1.7	-0.7	-1.5	-0.4
Consumer goods	-1.2	-2.6	-2.3	-1.9	-2.4	-4.1	-7.0	-6.4	-5.0	-4.3
Textiles	-2.3	-3.2	-2.1	-2.1	-3.1	-6.5	-6.4	-4.4	-6.8	-7.2
Agro-based products and others	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Enterprises rendering services	2.8	4.4	4.0	3.0	5.9	10.9	11.8	15.8	19.7	26.2
Trading and marketing	0.8	0.9	1.3	1.9	1.8	1.5	1.2	1.4	1.2	1.5
Transportation	-0.4	0.9	0.9	-0.5	-0.8	1.2	-0.3	-0.5	-1.8	2.3
Construction	-0.3	-1.1	-1.1	-1.3	-1.2	-1.3	-2.3	-2.0	-1.2	-2.3
Other	2.7	3.7	2.9	2.9	6.1	9.5	13.2	16.9	21.5	24.7
Total net profits 1/	20.3	29.9	37.9	22.7	23.6	32.6	45.4	71.7	95.6	102.6
Net profit of profit-making enterprises 1/	37.8	49.2	57.5	53.9	60.8	73.8	97.7	120.7	147.6	161.2
Net loss of loss-making enterprises	17.5	19.3	19.6	31.2	37.2	41.2	52.3	49.0	52.0	58.6
Number of profit-making enterprises	114	117	131	123	133	131	121	130	132	129
Number of loss-making enterprises	103	106	98	111	102	106	116	109	102	104

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

1/ After tax.

Table 17. India: Non-Profit Indicators of Central Government Public Enterprise Performance, 1987/88-1996/97

(In billions of rupees, unless otherwise noted)

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Gross internal resource generation 1/	69.1	89.1	107.7	113.0	129.4	147.9	166.8	199.9	242.0	255.3
In percent of investment	71.6	76.2	78.6	77.6	60.0	121.8	96.0	240.0	561.5	164.5
Net internal resource generation 2/	38.2	41.2	58.2	61.8	72.9	100.8	98.6	149.3	167.3	131.6
In percent of investment	39.6	35.2	42.5	42.4	33.8	83.0	56.8	179.2	388.2	84.8
Contribution to central government revenue 3/	151.3	163.5	182.6	195.2	199.5	224.5	229.9	274.7	308.8	375.0
In percent of central government revenue	38.4	36.8	35.4	33.9	27.7	28.2	28.9	27.0	27.4	27.7
Employment (in millions)	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.0
Export earnings	41.8	48.9	63.7	71.0	89.8	103.3	118.7	133.3	162.7	163.6
In percent of turnover	5.1	5.3	6.0	6.0	6.7	7.0	7.5	7.1	7.2	6.5

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

1/ Net profit (after tax) minus dividends plus depreciation allowances and deferred current expenditure written off.

2/ Gross internal resource generation less loan repayments.

3/ Corporate tax, customs and other duties, and dividends.

Table 18. India: Top Profit- and Top Loss-Making Central Government Public Enterprises in 1996/97

Rank	Profit-Making Enterprises	Pre-Tax Profits: Billions of Rupees	Pre-Tax Profits: Percent Share of Total Profits
1.	Oil and Natural Gas Corp. Ltd.	25.3	11.9
2.	Indian Oil Corp. Ltd.	17.7	8.3
3.	National Thermal Power Corp. Ltd.	12.2	8.1
4.	Mahanagar Telephone Nigam Ltd.	14.8	7.0
5.	Hindustan Petroleum Corp. Ltd.	9.4	4.4
6.	Bharat Heavy Electricals Ltd.	8.6	4.1
7.	Gas Authority of India Ltd.	8.3	3.9
8.	Videsh Sanchar Nigam Ltd.	8.3	3.9
9.	Northern Coalfields Ltd.	7.3	3.4
10.	Bharat Petroleum Corp. Ltd.	6.7	3.1
	Total	123.6	57.9
	Total pre-tax profits of all profit-making enterprises	213.4	100.0
	(in percent of 1996/97 GDP)	(1.7)	

		Net Loss: Billions of Rupees	Net Loss: Percent Share of Total Losses
1.	Fertilizer Corp. of India Ltd.	5.4	9.2
2.	Hindustan Fertilizer Corp. Ltd.	5.3	9.1
3.	Eastern Coalfield	3.4	5.8
4.	Bharat Coking Coal	3.2	5.5
5.	Air India Ltd.	3.0	5.1
6.	Rashtriya Ispat Nigam Ltd.	2.5	4.2
7.	Indian Iron & Steel Co.	2.1	3.6
8.	Cement Corp. of India Ltd.	1.6	2.7
9.	IDPL Ltd.	1.5	2.6
10.	Hindustan Shipyard Ltd.	1.5	2.6
	Total	29.5	50.4
	Total losses of all loss-making enterprises	58.6	100.0
	(in percent of 1996/97 GDP)	(0.5)	

Source: Government of India, *Public Enterprises Survey 1996/97*.

Table 19. India: Profitability of State Government Enterprises, 1992/93-1996/97 1/

(In billions of rupees)

	1992/93	1993/94	1994/95	Rev. Est. 1995/96	Budget 1996/97
Electricity boards	-43.6	-49.9	-63.4	-83.2	-100.1
Road transport corporations	-3.6	-3.6	-3.7	-6.6	-7.2
Forestry	3.8	4.9	14.2	3.3	2.3
Mines and minerals	7.5	6.2	7.6	9.2	9.9
Commercial irrigation and river projects	-11.1	-11.4	-14.3	-13.8	-16.3
Power projects	-1.4	-1.8	-2.1	-2.3	-2.2
Water transport and others	-3.1	-3.6	-2.4	-3.1	-3.4
Total	-51.6	-59.2	-64.1	-96.5	-117.0

Source: Data provided by the Indian authorities.

1/ Excluding subsidies.

Table 20. India: Reserve Money, 1993/94-1998/99 1/

	1993/94	1994/95	1995/96	1996/97	1997/98				1998/99
	March	March	March	March	June	Sept.	Dec.	March	June
	(In billions of rupees, end of period)								
Reserve money	1,387	1,693	1,945	2,000	2,034	2,025	2,117	2,262	2,286
Currency in circulation	854	1,047	1,226	1,368	1,469	1,399	1,490	1,508	1,609
Currency with public	823	1,007	1,183	1,321	1,469	1,353	1,444	1,452	1,609
Cash with banks	31	40	43	47	0	46	46	56	0
Bankers' deposits	508	612	685	600	516	584	584	718	636
Other deposits	25	34	33	32	48	41	43	36	41
Net domestic assets of RBI	872	946	1,204	1,051	984	958	1,051	1,103	1,129
Net claims on Government	993	1,015	1,214	1,242	1,204	1,137	1,290	1,352	1,501
Center	968	989	1,188	1,207	1,202	1,130	1,279	1,336	1,483
States	25	26	26	35	2	7	11	15	18
Gross claims on banks	56	135	220	70	72	75	78	71	57
Gross claims on commercial sector	65	66	69	62	55	57	68	82	84
Other items, net	-241	-270	-298	-323	-347	-311	-384	-401	-512
Net foreign assets of RBI	514	747	741	949	1,050	1,067	1,066	1,159	1,157
	(Annual percent change)								
Reserve money	25.2	22.1	14.9	2.8	5.4	10.0	11.2	13.1	12.4
Net domestic assets of RBI	-1.0	8.4	27.3	-12.7	-15.9	-6.5	0.1	5.0	14.8
Net claims on Government	0.9	2.2	19.6	2.3	-10.5	-7.5	2.3	8.8	24.6
Gross claims on banks	-43.9	142.7	63.0	-68.1	-5.0	0.5	16.4	1.4	-21.4
Gross claims on commercial sector	3.7	2.2	4.0	-9.6	-15.5	-8.4	7.8	32.1	53.8
Memorandum items:									
Contribution of RBI credit to the government to growth of Reserve Money (percentage points)	0.8	1.6	11.7	1.5	-7.3	-5.0	1.5	5.5	14.6

Source: Data provided by the Indian authorities.

1/ Except for March 31, all other quarters are on a last reporting Friday basis.

Table 21. India: Monetary Survey, 1993/94-1998/99 1/

	1993/94	1994/95	1995/96	1996/97	1997/98				1998/99
	March	March	March	March	June	Sept.	Dec.	March	June
	(In billions of rupees, end of period)								
Broad money (M3)	4,344	5,315	6,040	7,018	7,307	7,515	7,709	8,254	8,554
Currency with public	823	1,007	1,183	1,321	1,444	1,353	1,444	1,452	1,580
Deposits	3,496	4,274	4,824	5,666	5,811	6,121	6,222	6,766	6,930
Nonbank deposits at RBI	25	34	33	32	52	41	43	36	44
Net domestic assets	3,799	4,525	5,219	5,964	6,167	6,341	6,536	6,988	7,291
Domestic credit	4,417	5,151	6,024	6,649	6,814	6,848	7,140	7,628	7,888
Net credit to Government	2,039	2,224	2,578	2,886	3,076	3,036	3,219	3,306	3,601
Credit to commercial sector	2,378	2,927	3,446	3,763	3,738	3,811	3,922	4,322	4,286
Commercial banks	1,644	2,116	2,557	2,784	2,757	2,816	2,900	3,241	3,190
Nonfood	1,535	1,993	2,459	2,708	2,656	2,727	2,780	3,116	3,022
Food	109	123	98	76	101	89	120	125	168
Other 2/	734	811	890	979	981	996	1,021	1,081	1,096
Other items (net)	-618	-626	-806	-686	-646	-507	-604	-640	-597
Net foreign assets	545	790	821	1,055	1,139	1,174	1,173	1,266	1,263
	(Annual percentage change)								
Broad money (M3)	18.4	22.3	13.6	16.2	17.0	17.0	17.1	17.6	17.1
Currency with public	20.5	22.4	17.4	11.7	13.5	12.9	11.5	9.9	9.4
Deposits	17.6	22.3	12.9	17.4	18.4	18.5	18.6	19.4	19.3
Net domestic assets	10.9	19.1	15.3	14.3	14.1	14.7	15.7	17.2	18.2
Domestic credit	11.4	16.6	17.0	10.4	10.9	11.0	12.5	14.7	15.8
Net credit to Government	15.7	9.1	15.9	12.0	11.9	11.0	14.0	14.6	17.1
Credit to commercial sector	8.0	23.1	17.7	9.2	10.1	10.9	11.4	14.9	14.7
Commercial bank credit to nonfood	5.7	28.7	23.4	10.1	12.1	11.9	10.9	15.1	13.8
	(Percentage points)								
Contribution to M3 growth:									
Net domestic assets	10.2	16.7	13.1	12.3	12.2	12.7	13.5	14.6	15.4
o/w Net credit to government	7.5	4.3	6.7	5.1	5.2	4.7	6.0	6.0	7.2
Credit to commercial sector	4.8	12.6	9.8	5.2	5.5	5.8	6.1	8.0	7.5
Net foreign assets	8.2	5.6	0.6	3.9	4.8	4.3	3.6	3.0	1.7

Source: Data provided by the Indian authorities.

1/ End-year data are a consolidation of March 31 data for the RBI and the last reporting Friday data for commercial banks; all other quarters are on a last reporting Friday basis.
2/ Includes RBI commercial credit, bank holdings of securities, and credit by cooperatives.

Table 22. India: Financial Assets of Banks and Selected Financial Institutions, 1992/93-1996/97

(In billions of rupees, end of period)

	1992/93	1993/94	1994/95	1995/96	1996/97
I. Banks (1+2+3) 1/	3,130	3,735	4,558	5,086	5,648
1. All scheduled commercial banks	2,995	3,584	4,381	4,891	5,420
2. Nonscheduled commercial banks	1	1	1	0	0
3. State cooperative banks	134	150	177	195	228
II. Financial Institutions 2/	1,813	2,138	2,481	2,779	3,230
4. Term-lending institutions 3/	737	810	918	1,063	1,311
5. State level institutions	126	132	142	157	192
6. Investment institutions 4/	921	1,158	1,371	1,497	1,649
7. Other institutions 5/	29	38	51	62	77
III. Total (I+II)	4,943	5,873	7,040	7,865	8,877
IV. Percentage share of banks in total	63.3	63.6	64.8	64.7	63.6

Source: Reserve Bank of India, Report on Trend and Progress of Banking in India, 1996/97.

1/ Includes: cash in hand and balances with the RBI; assets with the banking system; investments; bank credit (total loans, cash-credits, and overdrafts and bills purchased and discounted); and dues from banks. Data are on a last Friday basis.

2/ Figures pertain to the accounting year of the respective financial institution.

3/ Term-lending institutions include NABARD, ICICI, IDBI, IFCI, IRBI, EXIM and NHB.

4/ Investment institutions include UTI, LIC, and GIC and subsidiaries.

5/ Other institutions include DICGC and ECGC.

Table 23. India: Selected Interest Rates, 1993/94-1997/98

(End of period; in percent per annum)

	1993/94	1994/95	1995/96	1996/97	1997/98
Reserve Bank of India					
Bank rate	12.0	12.0	12.0	12.0	10.5
Export refinance	11.0	11.0	11.0	11.0	10.5
Interest on bank reserves					
Base rate 1/	10.5	10.5	10.5	10.5	4.0
Incremental rate 2/	--	--	--	--	4.0
Commercial bank deposits					
6 months - 1 year	10.0	11.0	10.0-11.0	6.0-10.0	6.0-12.5
1-2 years	10.0	11.0	12.0	11.0	10.5
Savings deposits	5.0	4.5	4.5	4.5	4.5
Commercial bank loans					
Exports	6.5-20.0	6.5-15.0	13.0-15.0	13.0-15.0	11.0-15.0
Food	15.0	14.0	16.5	14.5	...
Primelending rate (PLR) 3/	15.0	15.0	16.5	14.5-15.0	14.0
Government obligations					
Three-month Treasury bills	7.3	11.8	13.0	8.0	7.4
364-day bills	10.1	11.8	13.1	10.1	8.0
Bonds: (10 years) maximum yield	12.5	12.7	13.9	13.7	11.2

Source: Data provided by the Indian authorities.

1/ Paid on eligible reserves maintained relating to bank deposits through March 1990.
2/ Paid on required reserves relating to the increment in bank deposits after March 1990.
3/ Floor rate on loans over Rs 200,000.

Table 24. India: Sources of Financing for Private Investment, 1993/94-1997/98

(In billions of rupees)

	1993/94	1994/95	1995/96	1996/97	Est. 1997/98
Total	770.5	1,330.0	1,230.6	1,071.1	1,370.6
Domestic financing	618.7	1,143.3	1,027.6	828.2	1,066.8
Debt	512.7	956.0	905.8	766.0	1,055.8
Bank borrowing	154.3	543.7	503.0	329.3	529.5
Disbursements from Indian financial institutions	265.2	323.6	363.1	394.4	506.6
Debentures	93.2	88.7	39.7	42.3	19.7
Equity (new share issues)	106.0	187.2	121.8	62.2	11.0
Foreign financing 1/	151.8	186.7	203.1	242.9	303.8
Debt	19.0	32.3	42.7	35.8	130.1
Equity	132.8	154.4	160.4	207.1	173.7
Foreign direct investment	18.4	42.1	71.4	89.6	114.3
Foreign institutional investment	64.2	54.6	67.2	69.0	35.5
Global depository receipts	50.2	57.6	21.8	48.5	24.0

Sources: Indian authorities; and staff estimates.

1/ Converted from U.S. dollars using the period average exchange rate.

Table 25. India: Principal Exports, 1992/93-1997/98

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

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97	Est. 1997/98
Tea						
Value	337	338	311	350	292	405
Volume	168	154	151	159	140	171
Coffee						
Value	130	174	335	449	402	436
Volume	114	119	128	157	163	148
Oil cakes						
Value	534	741	573	703	985	916
Volume	3,679	4,821	4,151	4,331	4,788	5,825
Cashew kernels						
Value	259	334	397	370	363	374
Volume	63	74	80	71	70	...
Rice						
Value	337	410	384	1,366	894	881
Volume	580	768	891	4,914	2,512	2,303
Marine products						
Value	602	814	1,126	1,011	1,129	1,160
Volume	212	257	321	310	395	388
Iron ore						
Value	381	438	413	515	481	474
Volume 1/	22	27	26	32	28	28
Tobacco (unmanufactured)						
Value	164	117	58	113	186	245
Volume	88	91	43	62	107	133
Spices						
Value	136	181	195	237	339	379
Volume	129	182	155	204	222	241
Oil products						
Value	476	398	417	454	482	353
Volume 1/	...	...	...	...	...	...
Textiles and garments	4,315	4,739	6,352	7,220	7,829	8,047
Jute goods	123	124	151	186	155	98
Leather and leather goods	1,277	1,350	1,611	1,731	1,580	1,443
Engineering goods 2/	2,326	2,830	3,392	4,287	4,963	4,982
Gems and jewelry	3,072	3,996	4,500	5,275	4,753	5,116
Chemicals and allied products	1,378	1,813	2,434	2,945	3,229	3,120
Other goods	2,690	3,441	3,682	4,585	5,408	5,551
Total exports (customs basis)	18,537	22,238	26,331	31,797	33,470	33,980

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

1/ In millions of metric tons.
2/ Includes electronics and computer software.

Table 26. India: Principal Imports, 1992/93-1997/98

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

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97	Est. 1997/98
Edible oils						
Value	58	53	199	676	825	735
Volume	0	0	0	1.1	1.0	1.0
Fertilizers						
Value	978	826	1,052	1,683	911	1,104
Volume	8	8	8	10	7	15
Iron and steel						
Value	778	795	1,163	1,446	1,934	1,505
Volume	1	1	2	2	2	2
Foodgrains						
Value	334	92	29	24	137	285
Volume	2	0	0	0	0	0
Petroleum products (value)	6,100	5,753	5,928	7,526	10,036	8,217
Crude oil						
Value	3,850	3,408	...	...	...	...
Volume (million barrels)	29	31	...	...	...	...
Other petroleum products						
Value	2,250	2,345	...	...	...	...
Volume (million barrels)	11	12	...	...	...	...
Nonferrous metals	395	479	940	904	1,106	909
Gems	2,442	2,634	1,629	2,106	2,925	3,144
Chemicals	1,427	1,538	2,339	2,811	2,925	3,263
Machinery and transport equipment	3,107	4,287	5,741	7,819	7,802	7,606
Other goods	6,263	6,849	9,634	11,683	10,531	14,011
Total imports, c.i.f. (customs basis)	21,882	23,306	28,654	36,678	39,132	40,779

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

Table 27. India: Direction of Trade, 1992/93-1997/98

(In millions of U.S. dollars)

	1992/93		1993/94		1994/95		1995/96		Est. 1996/97		Est. 1997/98	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
United States	3,516	2,147	3,999	2,737	5,021	2,906	5,521	3,862	6,555	3,686	6,630	3,635
European Community	5,247	6,603	5,797	7,002	7,031	7,115	8,418	9,774	8,355	9,913	8,556	9,754
Of which:												
France	472	595	504	593	582	616	747	841	716	768	740	787
Germany	1,427	1,657	1,539	1,790	1,748	2,187	1,978	3,145	1,893	2,831	1,854	2,501
Japan	1,436	1,428	1,741	1,522	2,027	2,040	2,216	2,468	2,006	2,187	1,859	2,129
Oil exporting countries 2/	1,788	4,777	2,383	5,221	2,430	6,052	3,081	7,650	3,232	10,179	3,401	9,420
Of which:												
Iran, Islamic Republic of	114	398	160	380	157	537	155	598	195	874	168	637
Saudi Arabia	407	1,496	511	1,542	436	1,570	482	2,025	577	2,770	675	2,528
Eastern Europe	815	554	1,001	563	1,057	968	1,340	1,674	1,098	1,103	1,202	1,115
Of which: FSU	607	255	649	257	807	504	1,047	853	...	...	...	...
Other countries	5,735	6,372	7,318	6,261	8,765	9,575	11,221	11,251	12,223	12,064	12,333	14,726
Total	18,537	21,882	22,238	23,306	26,331	28,654	31,797	36,678	33,470	39,132	33,980	40,779

Source: Data provided by the Directorate General of Commercial Intelligence and Statistics.

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

Table 28. India: Trade and Balances Under Bilateral Arrangements, 1992/93-1997/98

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	Est. 1996/97	Est. 1997/98
Exports						
Czech and Slovak Federal Republic	91	100	34	32	40	29
Poland	64	52	67	88	77	84
Romania	8	22	16	30	18	15
U.S.S.R./CIS	607	794	901	1,145	912	1,009
Total	770	968	1,018	1,295	1,047	1,137
Imports						
Czech and Slovak Federal Republic	59	34	54	65	60	82
Poland	81	45	45	130	29	36
Romania	55	25	48	148	154	61
U.S.S.R./CIS	255	380	749	1,223	777	902
Total	450	484	896	1,566	1,020	1,081

Source: Data provided by the Indian authorities.

Table 29. India: External Commercial Borrowing, 1992/93-1997/98 1/

(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Total sanctions	2,200	2,858	4,367	6,286	8,581	8,714
Financial institutions	259	294	476	1,849	1,502	795
Power	...	208	1,884	616	1,875	8,014
Railways	...	--	--	45	144	179
Shipping	166	460	117	105	146	210
Telecom	...	460	117	105	289	1,493
Petroleum	...	970	129	160	783	230
Civil aviation	...	91	18	390	46	373
Export-oriented units	...	156	48	191	...	...
Others	...	406	1,695	2,897	3,797	2,420
Gross disbursement	1,170	1,859	3,840	4,252	5,732	4,590
Outstanding debt	15,965	17,566	19,620	17,968	19,167	21,006 2/
(In percent of total external debt)	(17.7)	(19.0)	(19.8)	(19.5)	(20.8)	(22.6)

Sources: Government of India, Economic Survey; Ministry of Finance; and press reports.

1/ Borrowings controlled by "ECB guidelines", including loans from banks abroad, bonds (except foreign currency convertible bonds), and credit from official export credit agencies.

2/ September 1997.

Table 30. India: External Debt, 1992-97

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

	March						Sept.
	1992	1993	1994	1995	1996	1997	1997
Medium and long term	67.8	73.1	79.0	85.1	78.9	78.0	80.5
Multilateral	23.1	25.0	26.3	28.5	28.6	29.1	29.1
Government borrowing	21.7	23.2	24.2	26.1	26.1	26.4	26.2
Concessional	14.3	15.5	16.0	17.8	17.6	17.6	17.7
Of which: IDA	14.0	15.2	15.7	17.4	17.3	17.3	17.4
Nonconcessional	7.3	7.7	8.1	8.4	8.5	8.7	8.5
Of which: IBRD	6.8	6.9	7.2	7.1	6.9	6.8	6.5
Nongovernment borrowing	1.4	1.8	2.1	2.4	2.5	2.8	2.9
Bilateral	15.5	16.2	17.5	20.3	19.0	17.3	17.3
Government borrowing	13.1	13.6	14.5	16.8	15.5	13.7	13.5
Concessional	13.1	13.6	14.5	16.8	15.2	13.4	13.3
Nongovernment borrowing	2.4	2.6	2.9	3.4	3.5	3.7	3.8
Export credit	4.0	4.3	5.2	6.6	5.2	5.4	6.5
Commercial borrowing	11.7	11.6	12.4	13.0	12.7	13.8	14.6
Of which: Commercial bank loans	6.7	6.5	6.0	5.8	5.7	8.1	8.9
Nonresident Indian (NRI) deposits 1/	10.1	11.1	12.7	12.4	11.0	11.0	12.0
IMF	3.5	4.8	5.0	4.3	2.4	1.3	0.9
Short term	7.1	6.3	3.6	4.3	5.0	6.7	5.8
Of which: NRI deposits 2/	2.8	3.4	1.8	2.3	2.9	3.8	2.3
Total convertible currency debt	74.9	79.4	82.6	89.4	84.0	84.7	86.3
(In percent of GDP)	(29.8)	(29.7)	(32.0)	(29.4)	(24.8)	(23.6)	(23.4)
Nonconvertible currency debt	10.4	10.6	10.1	9.6	8.2	7.5	6.6
Total external debt	85.3	90.0	92.7	99.0	92.2	92.2	92.3
(In percent of GDP)	(33.9)	(33.7)	(35.9)	(32.6)	(27.6)	(25.6)	(25.2)

Sources: Government of India; and staff estimates.

1/ Deposits above one year's maturity. Excludes nonrepatriable, nonresident rupee deposits.

2/ Deposits of up to one year's maturity.

Table 31. India: Official Reserves, 1992/93-1997/98

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

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Gold 1/	558	583	696	654	620	596
SDR holdings	18	108	7	82	2	1
Reserve position in IMF	296	299	331	311	294	283
Foreign exchange	6,434	15,068	20,809	17,044	22,367	25,975
Gross reserves	7,306	16,058	21,843	18,091	23,283	26,855
Use of Fund credit	4,799	5,040	4,300	2,374	1,313	664
Net reserves 2/	2,507	11,018	17,543	15,717	21,970	26,191

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

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