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REPORT AND RECOMMENDATION

OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A PROPOSED STRUCTURAL ADJUSTMENT LOAN

IN AN AMOUNT EQUIVALENT TO US$250 MILLION

AND ON A

PROPOSED STRUCTURAL ADJUSTMENT CREDIT

IN AN AMOUNT EQUIVALENT TO SDR 183.8 MILLION

TO INDIA

November 12, 1991

CURRENCY EQUIVALENTS

Curency unit = Indian Rupee (RS)
US$1.00 = Rs 25.84
SDR 1.00 = Rs 35.71

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

April 1 - March 31

ABBREVIATIONS AND ACRONYMS

BIFR	Board for Industrial and Financial Reconstruction
BSE	Bombay Stock Exchange
CCFF	Compensatory and Contingency Financing Facility
CCS	Cash Compensatory Support
CRR	Cash Reserve Ratio
DGS&D	Directorate General of Supply and Disposals
DFI	Development Finance Institutions
DOD	Debt Outstanding and Disbursed
EAP	Environmental Action Plan
NRF	National Renewal Fund
NRI	Non-Resident Indians
OGL	Open General License
PMP	Phased Manufacturing Programs
RBI	Reserve Bank of India
REP	Replenishment
SEB	State Electricity Boards
SEBI	Stock Exchange Board of India
SICA	Sick Industrial Companies Act
SLR	Statutory Liquidity Ratio
SOE	Statement of Expenditures

INDIA

STRUCTURAL ADJUSTMENT LOAN/CREDIT

LOAN AND CREDIT SUMMARY

Borrower:	India, acting by its President
Executing Agency:	Ministry of Finance
Amount:	IBRD Loan: US$250.0 million IDA credit: SDR 183.8 million (US$250 million equivalent)
Terms:	IBRD Loan: Repayment over twenty years, including five years' grace, at the standard variable interest rate. IDA credit: Standard (with thirty-five years' maturity).
Description:	The proposed Structural Adjustment Loan/Credit would support the initial phase of the Government's program of macroeconomic stabilization and structural reform. In addition to a major fiscal adjustment effort, the main areas covered by the program are: (i) deregulation of domestic industry and promotion of foreign direct investment; (ii) liberalization of the trade regime; (iii) reform of domestic interest rates coupled with measures to strengthen capital markets and institutions; and (iv) initiation of public enterprise reform.
Benefits:	The adjustment policies being supported by the SAL/SAC in conjunction with an IMF stand-by arrangement, will restore macroeconomic balance and strengthen external creditworthiness. The Government's reform measures would initiate the opening up of the economy and would also alter fundamentally the parameters of public-private interaction in a manner that would promote domestic competition, improve the incentive system, and would foster sustained growth with rising productivity.

Risks: Given the external liquidity situation of India and the extent of adjustment efforts required, the first important risk relates to failure to follow through with the implementation of forceful stabilization and structural reform measures. The Government's determined and skillful efforts to forge the consensus necessary for sustaining the reform process notwithstanding, social and political reaction to the adverse transitional consequences of adjustment (e.g., subsidy reductions, labor retrenchment, and higher inflation) could slow the pace of reform and jeopardize its success. Failure to elicit a strong supply response, either due to lukewarm private investment response and/or to shortages of essential intermediate and capital goods imports, is the second major risk associated with the program. Finally, external developments over which the authorities have limited or no control define the third set of risks (e.g., slow growth of world trade, unresolved international trade issues, and inadequate balance of payments support).

Disbursements: The proposed loan/credit will be disbursed in two tranches. It is proposed that the first tranche be set at US$300 million, with the remaining US$200 million to be disbursed in the second tranche. The amount of each tranche would be equally divided between the loan and credit. The first tranche would be available upon loan/credit effectiveness. The release of the second tranche, planned for April-May 1992, would be contingent upon satisfactory overall progress in program implementation and the fulfillment of specific conditions.

INDIA

STRUCTURAL ADJUSTMENT LOAN/CREDIT

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AND INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED STRUCTURAL ADJUSTMENT
LOAN/CREDIT TO INDIA

1. I submit the following report and recommendation on a proposed Structural Adjustment Loan/Credit to the Government of India. The proposed operation would be for the equivalent of US$500 million, equally divided between IBRD and IDA. The proposed loan would have a term of twenty years, including a grace period of five years, at the Bank's standard variable interest rate. The proposed credit would be on standard IDA terms with thirty-five years maturity. In parallel with an IMF stand-by arrangement (approved by the Fund's Board on October 31, 1991), the proposed Structural Adjustment Loan/Credit, would support the initial phase of the Government's medium-term program of macroeconomic stabilization and structural reform.

PART I. THE ECONOMY[1]

A. Introduction

2. Viewed in the broad perspective of social and developmental goals and objectives that the developing world has pursued in the past four decades, India's achievements are unique. Since Independence in 1947, the country has eradicated famine and significantly reduced malnutrition, has taken major steps in improving agricultural productivity and output, and has established a diversified industrial base with an internationally recognized scientific culture. The country has established and operated democratic systems and processes which have ensured a remarkable degree of political freedom for the common citizen. These achievements have involved forging a large, extremely poor populace, sharply divided along ethnic, linguistic, and religious lines, into a modern, federated nation state. Driven by the need to build consensus in a highly diverse society, economic policy in India has been dominated by goals of interpersonal and interregional equity and national self reliance.

3. In pursuit of its development objectives, however, India relied on an inward-looking and highly interventionist approach to economic management at the level of both aggregate and microeconomic policies. Industrial policy was driven primarily by the objective of attaining self-sufficiency rather than by considerations of efficiency and underlying comparative advantage. At the operational level, the policy assigned a dominant role to the state, which in the process assumed substantial and sometimes exclusive ownership positions in key industries, and regulated virtually every facet of private initiative, including firms' entry, expansion, diversification, and modernization, as well as labor

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[1]The latest Country Economic Memorandum (Report No. 9412-IN), which provides a detailed analysis of the economy's recent performance and prospects, was distributed to the Executive Directors on August 23, 1991.

deployment, asset restructuring or liquidation, on a case-by-case basis. As an integral part of this policy, a highly protective trade regime was built up with numerous quantitative restrictions, high tariffs, and a multiplicity of discretionary import licenses. Over time, the trade regime became intertwined with the fiscal apparatus as the Government's reliance on customs revenues increased.

4. A large number of public enterprises was established by both Central and State Governments. These were often granted monopolistic positions in key subsectors of infrastructure, manufacturing, services and trade, and were nourished by Government preferences, including easy access to budgetary resources, guaranteed and subsidized credit, and protection from import competition. In the financial sector, the Government has maintained a dominant ownership position in the banking, mutual funds, and insurance industries following nationalizations in 1969. It has also pre-empted resources, and exerted considerable direct influence on both sides of the balance sheets of financial institutions through differential tax treatment of alternative financial instruments, regulated interest rates, high mandatory reserve requirements, and directed credit at subsidized rates.

5. This dirigiste strategy resulted in slow progress toward many of India's development objectives. Growth, in particular, was disappointing in relation to India's relatively high saving and investment rates. Its manufacturing sector and exports, both large at Independence relative to other developing countries, stagnated. Population growth rates remained high, and indicators of the health and educational status of India's population, while showing some progress, remained among the world's lowest.

B. Policies in the 1980s

6. A consensus began to build in the late 1970s that India would have to liberalize and increase the efficiency of its economy if it were to meet the challenges of providing gainful employment for a rapidly growing labor force, generating sufficient resources for social programs, and modernizing its infrastructure and industrial capacity to respond effectively to changing global and domestic conditions. This was translated, at the policy level, into a greater emphasis on economic growth as the primary means of poverty alleviation.

7. To this end, the Government took a variety of policy initiatives to stimulate aggregate demand and supply. On the demand side, macroeconomic policy became more expansionary, financed by increased domestic and external borrowing. On the supply side, significant initiatives were launched to improve infrastructure performance, and the scope for private initiative was gradually increased. Constraints on industrial investment, expansion, and diversification were partially relaxed. Price controls were removed in industries such as cement, aluminum, and paper. Licensing restrictions on large and foreign-controlled companies were eased to some extent. Industry-specific deregulation and promotion packages were instituted for industries like electronics and computers, leather, gems and jewelry, some of which experienced spectacular growth in output and/or exports. The private sector was permitted increasing involvement in sectors traditionally reserved for the public sector, on an "ad hoc" basis, often through creation of "joint sector" concerns. While the trade regime retained its reliance on quantitative restrictions and high tariffs, an active export promotion effort and (after 1985) flexible exchange rate policy

were utilized to reduce the bias against industrial exports. In the financial sector, new instruments were developed to stimulate financial savings. In view of the Government's tight control over the resources of the banking sector, capital markets and institutions began to grow rapidly, becoming by the late 1980s a major source of funds to the corporate sector.

8. Viewed in terms of India's historical record, the economy's performance in the 1980s was impressive. Real per capita income rose by 40 percent in the 1980s, compared to less than 30 percent over the previous two decades combined, helping to make inroads into India's massive poverty. Manufacturing growth in the 1980s accelerated to over 7 percent per annum after years of disappointing performance, and productivity growth rose by 2.9 percent per annum following a long period of stagnation. There were advances in product and process technologies. However, these advances were based to a large extent on relaxed restrictions against foreign collaborations, and progress was uneven. Manufactured exports, sluggish in the 1970s and early 1980s, grew rapidly from the mid-1980s onward, albeit in a fairly narrow range of products. More generally, domestic industrial product markets became more competitive. All of these developments raised hopes that India had achieved a breakthrough onto a higher long-term growth path.

C. The 1990-91 Balance of Payments Crisis

9. The severe balance of payments crisis which has beset the Indian economy since mid-1990, has clearly demonstrated the ineffectiveness of a piecemeal approach to economic reform. Although the crisis was precipitated by the oil shock of 1990, and deepened by the political uncertainty in late 1990 and early 1991, its origins are of a long-term and structural nature, traceable, most directly, to the poor performance of the public sector, and the over-regulation and protection of domestic industry which resulted in a pronounced bias against the export sector. The Government's recognition of these fundamental causes of the crisis was clearly articulated in the Budget speech of the Minister of Finance on July 24, 1991, and is reflected in the Letter of Development Policy.

10. The basic policy philosophy shaping economic growth in the 1980s combined expansionism on the macro side, with continued interventionism on the micro side. Pervasive Government interventions in the markets for labor, foreign exchange and capital, as well as managerial control, remained a dominant feature of Indian policy management in the 1980s. This led to serious price distortions, inefficiency of resource use and a structural bias against exports. In this environment, the shift in the stance of macro-policy from the conservative management of aggregate demand in the 1960s and 1970s to the fiscal expansionism of 1980s resulted in large and potentially unsustainable accumulations of domestic and foreign debt. As the deficit of the overall public sector rose steadily from 7.4 percent of GDP in 1980/81 to 10.5 percent in 1990/91, total domestic public debt increased from 35.6 percent of GDP in 1980/81 to 56 percent of GDP in 1990/91, while external debt more than tripled to US$70 billion over the same period. The modus-operandi for such large accumulations was repression of the financial system on the domestic side, and increasing reliance on riskier and relatively shorter term debt instruments on the external side.

11. Domestically, the primary burden of financing the Government's debt accumulation fell on the banking sector, particularly commercial banks which were captive holders of the Government's securities and treasury bills through the

Statutory Liquidity Ratio (SLR). Through steady increases in the SLR the Government channeled a growing proportion of commercial banks' demand and time liabilities to the public sector. Given India's buoyant private saving, this financing strategy was initially able to meet much of the growing dissaving of the public sector. However, increasingly India's internal imbalances spilled into the external sector accounts. The trade deficit rose from US$4.5 billion in 1984/85 to US$7.3 billion in 1985/86, with the deficit on the current account of the balance of payments rising by over 70 percent to US$6.0 billion. In the years that followed, the deterioration in the external current account tended to accelerate as the private saving rate stagnated, and as Government imports and interest payments on previously acquired debt increased sharply. In the second half of the 1980s as a whole, the deficit on the external current account averaged about 3 percent of GDP despite improvements in India's merchandise terms of trade and buoyant growth of exports after 1985. As a result, India's total external debt outstanding and disbursed (DOD) increased from about US$41 billion in 1985/86 to US$70 billion at the end of 1990/91. The ratio of DOD to GDP climbed from 19 percent to 25 percent over the same period.

12. Since the mid-1980s, India has relied increasingly on borrowings from private markets, and much of this borrowing has been in the form of relatively short-term and potentially volatile instruments such as two to three year maturity foreign currency bank deposits from non-resident Indians (NRIs). Since the NRI bank deposits can be withdrawn on demand (with only a small penalty), the weight of these deposits and short-term commercial bank debt in the total stock of debt (about US$18 billion or 25 percent of total DOD at the end of 1990/91) made India extremely vulnerable to liquidity crises stemming from a loss of private creditor confidence abroad.

13. The many weaknesses in the financing strategy adopted during the 1980s were revealed abruptly in 1990/91. The increased oil import bill and foreign exchange receipt losses caused by the Gulf crisis came at a time when India's creditworthiness was already under strain. Consequently, the country's access to the international financial market was sharply curtailed. By end 1990, India's foreign exchange reserves had fallen to US$1.2 billion (about two weeks of imports). India availed itself of Fund resources, drawing SDR 716.9 million from the Contingency Compensatory Financing Facility (CCFF) and SDR 551.9 million as a first tranche stand-by credit. Despite these infusions, and severe import compression measures, foreign exchange reserves declined by US$1.8 billion in 1990/91 as net borrowing from private creditors fell by US$1.4 billion. Notwithstanding the liquidity pressures, India managed to maintain its impeccable debt servicing record.

PART II. THE ADJUSTMENT PROGRAM

A. Background

14. The new minority Government that took office on June 21, 1991 moved swiftly to introduce an impressive set of measures aimed at dealing with the immediate external liquidity crisis, redressing accumulated fiscal imbalances, and equally important, a fundamental restructuring of the economy. On July 1 and 3, the Reserve Bank depreciated the rupee by 23 percent (in terms of rupee per U.S. dollar). On July 4, the Government announced a trade policy reform package which, together with supplementary measures announced on August 13, 1991,

aims at a significant reduction of quantitative restrictions on imports of intermediate and capital goods, reductions in tariff rates, substantial elimination of state monopoly on exports and imports, and convertibility of the rupee for trade transactions in three-to-five years. On July 24, 1991, the 1991/92 Union budget as well as a "Statement on Industrial Policy" were presented to Parliament. The budget announced the Government's intention to reduce its fiscal deficit by more than two and a half percentage points of GDP in 1991/92, despite the fact that only two-thirds of the fiscal year remained at the time. The new industrial policy aims to drastically reduce administrative control over firms' entry, expansion, and diversification, and to liberalize significantly the foreign investment code, allowing foreign capital ownership of up to 51 percent in selected industries (and up to 100 percent in special cases). Major aspects of these policy initiatives have since been implemented.

15. Discussions with the Government on policy-based lending in support of its stabilization and structural reforms were initiated in January 1991. At that time the Bank indicated that reform measures contained in the 1991/92 budget, and in any related policy statements, could provide an important basis for fast-disbursing assistance. In the context of these initial discussions, the Bank organized an informal donors meeting in April 1991 that was important in mobilizing support for India's emerging program. However, the interim nature of the Government, and the postponement of the elections caused by the assassination of Mr. Gandhi, created delays in program formulation and presentation of the budget. The discussions, however, accelerated after the new Government assumed office, and urgently requested the World Bank's and IMF's assistance in support of its adjustment program.

16. In parallel with a Fund stand-by arrangement[2], the Structural Adjustment Loan/Credit represents a prompt response by the Bank to support India's management of the transition to a path of sustained economic growth with external payments viability. It would be the Bank's first policy-based loan to India and is facilitated by two important factors. First, the Government has firmly committed itself to economic reform, albeit at a pace that it feels is consistent with India's political and legislative framework. Secondly, the international community is providing major support for India's reform initiatives, as evidenced by the outcome of the India Aid Consortium meeting held in Paris on September 19 and 20, 1991, and the positive response of several major multinational companies to India's liberalized foreign investment regime. The present operation is expected to be followed by a series of policy-based loans/credits in support of further reforms.

17. The thrust of the Government's medium-term adjustment program, as outlined in the Government's Letter of Development Policy (Annex II), lies initially in the key interrelated areas of fiscal and financial stability, and industry, trade, finance and public enterprise reforms. The objectives to be achieved in each area in the near and medium term, as well as specific strategies for their achievement, are articulated in the Letter, and are elaborated upon below.

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[2]The twenty-month arrangement is in the amount of SDR 1,656 million. A second drawing of the CCFF for SDR 166.2 million was approved on July 22, and a third drawing in the amount of SDR 468.9 million was extended on September 12, 1991.

B. Macroeconomic Framework

18. The macroeconomic objectives of the Government are to restore internal and external balance consistent with sustained growth of output and employment, and to facilitate the transition to a less regulated and more efficient economy. Fiscal, monetary and supply-side policies are all being adjusted to effect the necessary mix of expenditure reduction and expenditure switching. Initial priority has been given to easing the country's tight external payments situation and reducing inflation. A credible program of stabilization is also seen as critical to reassure external creditors and to mobilize official external assistance. The basic elements of the Government's macroeconomic strategy include (i) establishing fiscal stability through a combination of expenditure cuts, tax reform, and a streamlining of the public enterprise sector; (ii) a restoration of external payments viability and price stability through vigorous export promotion, a gradual build-up of foreign exchange reserves and tightened monetary policy; and (iii) raising efficiency and productivity growth through the removal of distortion-inducing controls on private sector activity, including a greater reliance on foreign capital and technology.

Fiscal Policy

19. Improved fiscal discipline is necessary to lower inflation, reduce demand pressures on the balance of payments and to free resources for investment. Given its role in the recent evolution of India's fiscal imbalances, the chief burden of adjustment is to be borne by the Central Government. Despite the fact that only eight months remained in the fiscal year at the time of its presentation on July 24, the 1991/92 Union Government budget set an ambitious target of reducing the fiscal deficit from over 9 percent of GDP in 1990/91 to 6.5 percent. Since interest payments are projected to rise from 4.3 percent of GDP to 4.7 percent in 1991/92, achieving the Government's 6.5 percent of GDP deficit target requires a contraction of the primary deficit from 4.8 percent of GDP to 1.8 percent. The Union Government deficit is to fall further to 5 percent of GDP in 1992/93, with a target of 4 percent by 1994/95. If these targets are achieved, it is anticipated that the overall public sector deficit (as defined by the saving-investment balance of the consolidated nonfinancial public sector) would decline from 10.5 percent of GDP to 5 percent by the mid-1990s.

20. As indicated in the Government's Letter of Development Policy, the targeted reduction of the deficit in the 1991/92 budget will involve a balance between current expenditure cuts and revenue measures, and will give relative protection to investment and social development outlays. Total expenditures and net lending are targeted to decline from 20.1 percent of GDP to 19.1 percent largely through cuts equivalent to 1.2 percent of GDP in noninterest current expenditures (notably fertilizer and export subsidies), transfers to the state Governments and central public enterprises, and defense spending. On the revenue side, Central Government revenue and grants are projected to rise by one percentage point to 12.6 percent of GDP. A significant portion of this revenue increase (equivalent to 0.4 percent of GDP) is to be achieved through the sale of part of Government equity in profitable public enterprises.

21. The dilution of Government ownership in profitable enterprises would have two important benefits besides generating revenues for the budget. It would further the process of public enterprise reform by introducing into the Government-public enterprise relationship a balancing partner and corresponding

accountability, and ultimately serve to broaden and deepen the operations of the stock exchanges. In conjunction with other measures being taken in the areas of budgetary and public enterprise reform, including reduced loans and transfers to enterprises from the Government, the enhanced autonomy and accountability should lead to greater internal resource generation by the public enterprises.

22. Given the very short time the new Government had for preparing the 1991/92 budget, a major effort will be required to realize its tax revenue projections and to translate overall expenditure reduction targets into specific program cuts. Moreover, some of the revenue measures, while justified at this time because of the priority of stabilization, cannot be relied upon as long-term measures of fiscal adjustment. Thus, additional measures on both the revenue and expenditure side are being formulated. Some measures to further strengthen the fiscal adjustment may be introduced by end-December 1991 with a view to realizing additional net savings equivalent to 0.3 percent of GDP before the end of the 1991/92 fiscal year.

23. Proposals for a comprehensive reform of the tax system, focusing on improving its elasticity, and hence the stability of Government revenues, as well as reducing the distortionary impacts of the current tax system, particularly its dependence on customs' revenues (about 50 percent of Central Government tax revenue in 1990/91), are being examined by a panel of experts, with a view to their introduction in the 1992/93 budget. Substantial additional expenditure savings will be also sought, with likely measures including further cuts in subsidies, curtailment of cost-of-living allowances, a continued decline in budgetary support for public enterprises, and moderation in defense outlays.

24. Reducing the overall public sector deficit will also require increased financial discipline by the states, and the Central Government intends to play an active role in encouraging desirable fiscal adjustments on the part of the states. Improvements in the fiscal position of states will ease the pressure for increased supporting Central expenditure in several areas. For instance, many important public and social services are the responsibility of the states. Cost recovery for most of these services has been very low and declining as a percentage of the cost of provision, and enhanced cost recovery will be a key to fiscal stability as well as to strengthening the provision of the services concerned. In some cases, pre-announced cutbacks in Central budgetary support may be sufficient to elicit enhanced cost recovery on the part of the states. The Center's credibility in this effort should be enhanced as it promulgates and implements the difficult adjustment measures necessary to redress fiscal imbalances in its own budget.

Exchange Rate Policy

25. India has pursued a relatively flexible exchange rate policy since the early 1980s, and there has been a gradual but substantial real depreciation of the rupee since 1985/86. However, the crawling depreciation of the rupee in the last few years in the face of growing financial imbalances stimulated considerable adverse speculation against the rupee, and contributed to the country's foreign liquidity problems. The two-step adjustment of the rupee (by 23 percent in terms of rupees per dollar) in early July 1991 would allow for an economy wide re-alignment of prices vis-a-vis the rest of the world, as well as dampen domestic absorption relative to aggregate demand. In order to restore and maintain confidence in the rupee, the Government has indicated that it intends

to hold the nominal effective exchange rate stable. However, with inflation in India currently running at a higher rate than in partner countries, some erosion of the real depreciation of the rupee achieved in July is expected. Thus, beyond the immediate period, exchange rate policy will have to be reviewed in the context of more fundamental considerations, including trade reform. In the interim, to ensure that the benefits of the recent exchange rate adjustments are largely protected, tight monetary, and fiscal policies will need to be maintained.

Monetary Policy

26. In framing the direction and operating instruments of monetary policy, the authorities are placing considerable emphasis on reducing inflation and supporting the adjustment in the balance of payments. These considerations imply an increased tightening of the stance of monetary policy through reduced growth targets for monetary aggregates, higher interest rates, and tighter quantitative credit controls. As part of the emergency measures adopted in April-June 1991 to control import demand, cash margin requirements on import letters of credit were substantially raised (from 50 percent to 150-200 percent), the benchmark (minimum) bank lending rate for the non-priority sectors was raised, and a 10 percent incremental cash reserve ratio was imposed on deposits held by commercial banks.

27. By September 1991/92, however, it became evident that monetary aggregates were expanding at a faster rate than expected, and inflation was accelerating, with the increase in the wholesale price index reaching an annual rate of 15.7 percent in September. The authorities decided to further tighten the stance of monetary policy, and interest rates were raised again in October. Shorter term deposit rates were raised by 1 to 2 percentage points, while the benchmark minimum lending rate to non-priority sectors was increased by 1.5 percentage points to 20 percent. Priority sector lending rates were also increased by 1 percentage point across the board. A number of important measures were also introduced to contain reserve money expansion, including the withdrawal of several key refinance facilities with the Reserve Bank of India (RBI) and a reduction in the interest paid on incremental cash balances held with the RBI. The RBI also announced a further tightening of the incremental non-food credit-deposit ratio, and the prohibition of any increase in net credit to a number of sectors. Importantly, export refinance and credit were exempted from the new regulations. The reduced availability of domestic credit and higher interest rates would adversely impact investment and the interest component of public expenditures in the first instance. However, the targeted decline in the Government's recourse to private financial savings should allow for a gradual moderation of the Government's interest bill, and permit a steady increase in the volume of domestic credit to the private sector in support of investment activity.

C. Industrial Policy Reform

Major Issues

28. Despite a decade of incremental reforms, India at the end of the 1980s had one of the most tightly regulated manufacturing sectors in the world. The key underlying problems that needed to be addressed through comprehensive industrial policy reform included: (i) lack of international competitiveness and

export orientation in organized-sector firms; (ii) a pervasive high cost structure, due most fundamentally to high tariffs and inefficiency of public sector enterprises; (iii) restrictions on import of new technology; (iv) slow employment growth in the organized sector, with virtual stagnation in organized private manufacturing; and (v) widespread incidence of enterprise failure or "sickness" due to lack of an effective exit policy.

Reform Strategy and Initiatives

29. The major industrial regulatory reforms recently taken by the Government are designed to create over the next five years an efficient and dynamic industrial sector, subject only to regulations relating to environmental, security and strategic concerns, industrial safety, and unfair trading and monopolistic practices. The new industrial policy, which was placed before Parliament on July 24, introduces a new approach aimed at promoting growth with enhanced international competitiveness. A significant breakthrough has been achieved in the relaxation of administrative and regulatory barriers to entry, expansion, diversification, and modernization by industrial firms. The new industrial policy has eliminated investment licensing requirements for all but eighteen industries, estimated to account for about 20 percent of current manufacturing output. It has drastically reduced the number of industries reserved to the public sector, eliminated restrictions on investments and mergers by large concerns under the Monopolies and Restrictive Trade Practices Act, and opened up an extensive positive list of industries in which ownership up to 51 percent by foreign companies is freely permitted. At the same time, the mandatory convertibility clause, under which financial institutions had the right to convert a proportion (up to 20 percent) of their loans to the business sector to equity, has been abolished for new projects.

30. Under the new industrial policy, locational approval would still be required for most investments within 25 kilometers of the periphery of cities with more than one million people (23 in all). Because of the delicate balance of payments situation, investors will still need an import license to import capital goods for projects in which the foreign exchange content is over 25 percent of total investment or Rs. 20 million, unless foreign exchange supply is ensured through foreign equity capital. Also, reflecting the acute balance of payments pressure facing the economy, dividend repatriation by companies with up to 51 percent foreign ownership has been linked under the new rules to their export earnings. Nevertheless, the Government recognizes the need for strengthening the incentives for foreign direct investment and will remove the provision linking dividend repatriation to export earnings as soon as the external payments situation improves. Furthermore, the Government recognizes that the all financing requirement on capital goods imports needs to be modified to allow debt as well as equity financing in order to facilitate financing of large investment projects. Despite the foregoing qualifications, overall, the new industrial policy marks a fundamental break with past practice of capacity planning and entry regulation.

31. Under the adjustment program, the Government will implement further measures aimed at eliminating regulatory barriers to entry. Specifically, it will issue guidelines clarifying that location restrictions on delicensing included in the new industrial policy are solely for the purpose of addressing environmental, safety, land-use, congestion, urban planning and related concerns, rather than being based on capacity, market size, and other criteria

traditionally used in industrial licensing. Concerning capital goods imports for delicensed projects, the limits will be increased by the second tranche release from 25 percent and Rs. 20 million to at least 50 percent and Rs. 100 million, respectively. These actions will significantly further reduce entry barriers generated by the industrial regulatory system. In this same vein, the Government will put in place a plan for comprehensive deregulation of the steel industry, the most important subsector still subject to price and distribution controls.

32. The Government recognizes that the major restructuring of the Indian economy implied by its agenda of macroeconomic adjustment and structural reform will depend on the formulation of a socially acceptable exit policy to facilitate the closure or restructuring of sick and loss-making companies in both the private and public sectors. Development of an effective exit policy has been inhibited primarily by the concern to protect existing jobs, largely regardless of cost. The entire regulatory system as it evolved over the years has become highly inimical to exit: onerous procedures for liquidation under the Companies Act; restrictive regulations governing labor retrenchment and the strong bias in favor of preserving jobs evident in the attitudes of the judiciary and bureaucracy; practices in the financial sector; state and local Governments' refusal to permit closure of plants; restrictions against transfers of land, and intrusion of political considerations.

33. The Government recognizes the necessity of major changes in the legal and regulatory framework as it affects exit, in order to ease the burden of industrial sickness and to enhance flexibility and dynamism in the industrial sector. Large numbers of sick firms are currently a drain on the budget, a threat to the banking system, and an obstacle to the expansion and emergence of more efficient firms and industries. Sick industrial units absorbed about Rs. 70 billion of credit (1.25 percent of GDP) in 1990/91 and accounted for about 10 percent of total commercial bank credit outstanding. The prevailing mechanism for handling sick industrial units in India is their referral to the Board for Industrial and Financial Reconstruction (BIFR).

34. In the past, the BIFR process has been constrained by the restrictiveness of various pieces of legislation governing industrial closure and labor retrenchment. To address these problems, the Government is devising appropriate amendments to the Sick Industrial Companies Act of 1985 that would strengthen the BIFR, improve its functioning, and streamline and facilitate its procedures. These amendments will be placed before Parliament prior to second tranche release. More broadly, the Government has established an inter-ministerial Working Group to review existing provisions of various laws governing labor relations, the role of state and local authorities in industrial restructuring, regulations governing the transfer of land, and procedures for liquidation under the Companies Act that unduly constrain industrial exit. Based on the recommendations of this Working Group, the Government will formulate and initiate a satisfactory policy to facilitate adjustment by industrial firms. To provide for the retraining, redeployment, and appropriate compensation where necessary of workers adversely affected by the restructurings, the Government has announced that it will establish a National Renewal Fund (NRF). The detailed scope, structure, financing and operations of the NRF will be specified by December 31, 1991.

D. Trade Policy Reform

Major Issues and Reform Objectives

35. The trade policy reforms undertaken in the 1980s included more generous incentives for manufactured exports, and the relaxation of quantitative restrictions on imports of intermediate goods and capital equipment. At the same time, for essentially fiscal reasons, there was a steady increase in the general level of Customs tariffs. Together with the real depreciation of the exchange rate which started in 1985, the reforms reduced the restrictiveness and overall anti-export bias of the trade regime while reducing import licensing rents and increasing Government revenue. Despite this, about 90 percent of the production of tradeable goods remained protected by nontariff barriers, and many severe impediments remained to competitiveness of the economy and, hence, to the export growth required for long-term external payments viability.

36. These impediments included: (i) a high general level of protection for import substitution manufacturing, and a pronounced anti-export and anti-agriculture bias in the broad structure of incentives; (ii) a large variance in incentive levels within both manufacturing and agriculture, including high effective protection of some industries and low or negative effective protection of others, especially of manufacturing industries using highly protected intermediate inputs and capital equipment; (iii) performance deficiencies resulting from the lack of both import competition and export rivalry in many industries; (iv) high transaction costs associated with the discretionary licensing and other controls of both imports and exports; (v) persistent difficulties in administering the export incentives resulting from the large number and complexity of the schemes, and from the profitability of diversion to the domestic market; (vi) frequent and largely unpredictable changes in the trade regime leading to difficulties in export marketing and to costly risk averting behavior such as the accumulation of above-normal raw material inventories; (vii) severely circumscribed private participation in import and export trade with a corresponding lack of flexibility and generally poor performance by the parastatal trading organizations; and (viii) excessive budgetary dependence on extremely high and largely redundant customs tariffs, whose incentive effects and administration were complicated by large numbers of exemptions and partial exemptions.

37. As indicated in the Letter of Development Policy, the Government has the following six medium-term objectives for trade policy reform: (i) the removal of most licensing and other nontariff barriers to all imports, with initial focus on intermediate and capital goods; (ii) the broadening and simplification of export incentives and the removal of licensing and other restrictions on exports; (iii) the abolition of most of the legal monopolies for parastatals involved in the export and import of key products, and the removal of restrictions on private importers and exporters; (iv) drastic simplification and increased transparency of the trade regime; (v) substantial reductions in the maximum and average levels and in the variability of customs tariffs; and (vi) a foreign exchange system free of all allocative restrictions affecting trade transactions.

The Reform Agenda

38. In order to pursue these medium term objectives, the Government has adjusted the exchange rate, introduced a new "Eximscrip" scheme linking imports to exports, and has commenced a process of reform aimed at removing administrative barriers to imports, improving the export incentive system and removing administrative barriers to exports, reducing tariff rates and simplifying the overall structure of the tariff schedule.

39. Exchange rate adjustment. As noted earlier, the depreciation achieved during the first half of 1991 is substantial. Hence, it will increase the profitability of exports, and will have made many import controls and tariffs redundant. It will, therefore, facilitate the removal of import controls and initial reductions of tariffs without much immediate impact on either the volume of imports or domestic production.

40. The Eximscrip scheme. This scheme simultaneously replaces and broadens a previous "replenishment" (REP) import license scheme for exports, and restricts a broad category of imports to a policy-determined fraction (presently 30 percent in most cases) of export earnings. It effectively removes discretionary import licensing for a large category of intermediate inputs and for some capital goods, and represents a major simplification of the trade regime. The Eximscrip, like the REP license which preceded it, is freely tradeable, with its price (the "premium") determined by the supply of scrip generated by exports and the demand generated by manufacturers wishing to use the scrip to import inputs needed for their exports or domestic production. The premium (currently about 30 percent of the value of exports) provides an incentive to exporters and at the same time is an efficient means of rationing the foreign exchange available for imports. The scheme also provides a convenient mechanism for further liberalization of the import regime, which can be achieved by allowing products subject to import licensing to be freely importable with the use of the scrip. However, compared with equilibration through the exchange rate, the Eximscrip scheme emphasizes adjustment through import compression more than by export expansion. This is because the cost of imports is increased by the full amount of the market premium, whereas exports only benefit by the premium times the replenishment rate. Moreover, if the scheme were to remain in place for very long, and especially if the premium is high, there is a serious danger that pressures would build up from both importers and exporters for special treatment and exemptions. Given the crucial importance of exports, and the basic policy objective of substantially reducing anti-export bias and of moving to a greatly simplified and less discretionary trade regime, the Government considers the Eximscrip scheme to be a transitional mechanism and intends to integrate it with OGL (Open General License) as soon as is feasible, and in any event no later than mid-1995.

41. Removal of nontariff barriers to imports. As part of its efforts to manage the acute balance of payments situation, beginning late last year, the Reserve Bank introduced foreign exchange controls including cash margins for imports, a queuing system for letter of credit applications, and foreign financing requirements for imports of capital goods. Initially, as well as restraining imports, these restrictions had an indirect negative impact on a number of export industries. These effects have now been largely mitigated by special provisions for export-related imports. As a first priority, the Government will continue to remove remaining impediments to export-related imports and by the second tranche release, it will have removed all the emergency

restrictions listed above. With respect to the import licensing system for intermediate inputs, a substantial number of items was removed from discretionary import licensing with the introduction of the Eximscrip scheme and through subsequent actions. Further intermediate items will be removed from the restricted list. By second tranche release, the proportion of domestic production protected by the restricted list would have been reduced by at least two-thirds, when compared to the pre-reform situation.

42. "Phased Manufacturing Programs" (PMPs) under which manufacturing firms are obliged to commit themselves to incorporate specified locally produced materials, components, and parts in their finished products, were used with increasing frequency during the 1980s and became an important nontariff barrier to imports. In July 1991, as part of the new industrial policy, it was announced that there would be no further PMPs for new projects, and in October 1991 some initial steps were taken to remove constraints on firms already operating under PMPs. When this latter process is completed, all decisions on the sourcing of inputs will be left to individual firms subject only to any remaining controls on imports inputs and tariffs.

43. Under existing policies a number of products are exclusively or principally imported by public sector organizations ("canalizing agencies"). The scheme for REP import licenses linked to exports and the Eximscrip scheme which has now replaced it have diluted these arrangements by allowing private imports of some canalized products. The Government intends to reduce substantially the role of the state monopoly agencies and to increase the private role in importing in the following ways. First, following the decanalization of a number of minor items in August 1991, all remaining canalized imports will be decanalized with the exception of petroleum products, fertilizers, oilseeds, cereals, certain fatty acids, and other goods on the grounds of security. Second, dual pricing will be eliminated with respect to products which can be imported by the parastatal agencies with the use of official foreign exchange, but if imported by others require the prior purchase of Eximscrip. Thus, either the parastatal agencies will also be required to use Eximscrip, or the discrimination in favor of the agencies will be eliminated by a program of progressive reduction and eventual elimination of official foreign exchange allocated to them for these imports.

44. Aside from the emergency RBI measures, imports of capital goods are subject to two types of restrictions: (i) the import licensing system administered by the Ministry of Commerce; and (ii) a requirement for approval from the Ministry of Industry for projects involving imports of capital goods. As noted above, the authorities intend to remove the RBI's foreign financing restrictions by second tranche release. As regards the import licensing system, policies for capital goods are based on a list of restricted items for which import licenses are required and a more extensive OGL list of machines and equipment for which import licenses are not required. However, licenses are required for the large category of machines and equipment which are not found on either list. Some liberalization of this system was previously introduced by allowing individual firms to use REP licenses to import otherwise restricted machines, and this provision was broadened with the introduction of the Eximscrip scheme. Further liberalization of capital goods imports will be implemented. By second tranche release, the import of all unlisted capital goods will be allowed by the Eximscrip route, and the capital goods restricted list would be reduced by an extent corresponding to at least 50 percent of the domestic

production of items on this list. This will represent substantial progress towards the medium term objective of delicensing all capital goods except those which will remain restricted for health, environment and security reasons. Finally, with respect to the Ministry of Industry's clearance requirement for capital goods imports, the restriction on imports has been relaxed by allowing automatic clearance when the required foreign exchange is provided by foreign equity. Moreover, as described in paragraph 31, a significant increase in the ceiling value below which clearance will not be required will be effected.

45. In order to reinforce industrial licensing and to prevent traders from benefiting from the scarcity premia inherent in import licensing, a basic principle of import policies has been that only "actual users", i.e., individuals and firms which use imported intermediate materials and capital equipment for further production, are permitted to import. The policy is based on the presumption that there will be no imports of consumer goods. The policy greatly reduces the flexibility and efficiency of the importing process, discriminates against firms requiring imports in small quantities, raises industrial costs, and more generally constitutes a separate nontariff barrier to imports. Given the abolition of most industrial licensing and the intention to remove most import licensing of intermediate and capital goods as well, the policy has lost its original rationale. Recognizing this, and also the economic costs, the Government has removed the "Actual User" requirement for the imports of many items, and will abolish the general policy.

46. Indian Import-Export policies are generally recognized to be extremely complex and often obscure, and for both reasons their administration involves a high degree of discretionary decision making. Frequent changes further increase the difficulty of understanding the policy and the time and energy required of businessmen who must work with it. In recognition of these problems, the Government has issued a computerized list, which will be continuously updated, of each product's import licensing status according to the Harmonized System of customs classification. At present, the tariff rate applicable to many products is not readily apparent, owing to the need to check whether an exemption applies, and if so at what rate. In the near future, the computerized list will be extended to include the applicable tariff. This will provide a much more efficient and transparent tool for customs administration and for the business community.

47. The Government also intends to simplify the import policy by moving to a negative list principle. Any intermediate or capital equipment item not on a restricted, canalized or OGL list will be importable with the purchase of Eximscrip. With a few exceptions, however, the import of consumer goods will continue to be banned for the time being. Eventually, as regards intermediate and capital goods, when Eximscrip and OGL are merged, there will only remain a short list of "sensitive" canalized products and products restricted for health and security reasons. All other intermediate and capital goods will be freely importable without the need for an import license (although capital goods imports will still be subject to the project-related restriction described above).

48. The purchasing organization for the Central Indian Government (the Directorate General of Supplies and Disposals), which also makes some purchases on behalf of state Governments, gives purchase preferences to domestic suppliers over imports. This purchase preference comes on top of already generally very high tariffs and also the Eximscrip premium in the case of products which must

be imported by this route. Recognizing that this additional protection of domestic suppliers is excessive, the Government intends to abolish this preference.

49. The reforms described above will constitute a major liberalization of the import regime in the medium term. However, more will remain to be done and the Government needs to consider its reform strategy for the remaining areas of quantitative restrictions. In this regard a major issue will be the liberalization of imports of consumer goods, which account for about half of domestic manufacturing output. This will become all the more urgent as imports of intermediate and capital goods are freed and tariffs on them are reduced. Although domestic competition in many industries reduces, or eliminates, the potentially available processing margins in the presence of import bans or high levels of protection, there remains a risk that new investment will be attracted into high cost and inefficient areas, which will make subsequent import liberalization more difficult. The Government is aware of these and other economic considerations dictating the extension of trade reform to include consumer goods. However, currently, because of political sensitivity and balance of payments constraints, it does not consider this aspect of trade reform a priority area.

50. Export incentives and removal of administrative barriers to exports. India has a large set of complex export incentive schemes (before the recent reforms, there were eleven separate general schemes plus other product-specific schemes). These have been introduced to make exporting attractive in view of the security and profitability of domestic markets resulting from almost complete protection against competing imports, and to offset or bypass the high costs of many intermediate inputs and machines. The system of cash compensatory support (CCS) for exports was abolished along with the devaluation of the rupee in July 1991, and preferential interest rates for exporters were also removed. The removal of these two incentives has been compensated, however, by the replacement of the REP license scheme with the much broader and simpler Eximscrip scheme and with measures which are intended to make the advance license scheme for duty-free imports by exporters much more comprehensive, automatic and expeditious. The attractiveness of the "100 percent EOU" (bonded warehouse) scheme and of the export processing zones has also been increased by allowing sales in the domestic market equivalent to 25 percent of total sales. These sales are subject to a special excise tax which is equivalent to half the normal import duty rate and in most cases are not subject to normal import controls; among other things, consumer goods, the import of which would normally be banned, can be "exported" into the domestic market in this way. Overall, these changes have considerably simplified the export incentive regime, and the Government expects that they will reinforce the change in the exchange rate in bringing a new impetus to exports.

51. While the Government operates a variety of export incentive schemes, mainly focussed on manufacturing, it also implements a complex set of export controls which are applied to most agricultural and mineral commodities, as well as to a number of manufactured products. These controls (which currently apply to about 190 products or product groups) include export bans, export licensing requirements, minimum export prices, and canalization by public sector agencies. They prevent or reduce the exports of the products affected and the responsiveness of their supply to changes in world prices and the exchange rate. The Government intends to remove all these controls with the exception of a satisfactory negative list. An understanding with the Government has been

reached on considerations for formulating such a list. These reforms will also mean that private intermediaries will have an increased and less restricted role in India's export trade.

52. Tariff reduction and simplification. Indian tariffs are extremely high by international standards. The median rate exceeds 100 percent, and for nonpetroleum imports in 1990/91 the average collection rate, which reflects the large numbers of exemptions and partial exemptions, was 63 percent. For a wide range of domestically produced products these rates are prohibitive, in the sense that domestic prices are well below the duty inclusive prices of imports, so that even in the absence of quantitative import controls no import competition would be possible. Largely due to numerous exemptions, tariff rates are also widely dispersed, with the result that there is also a wide variation in the tariff protection available to different productive activities. For these reasons, as tariffs become the main instruments of protection with the removal of quantitative controls, a basic Government objective is to reduce the level of tariffs and to simplify their structure. However, customs revenue (mainly collected from imports of products and product varieties which are not produced domestically) accounts for a very large share of the Central Government's tax revenue (about 50 percent in 1990/91). Consequently, tariff reduction and simplification have to be accompanied by more general tax and fiscal reforms and to be compatible with the Government's targets for budget deficit reduction and for the restoration of foreign exchange reserves. Tariff reduction also needs to be coordinated with the removal of import controls, otherwise reductions for products which remain subject to licensing will simply transfer revenue from the Government to the license holders without much or any benefit for consumers or for increased productive efficiency.

53. Recent changes in tariffs recognize these considerations but principally emphasize the need for tax revenue which is particularly urgent in the short run. For fiscal reasons, tariffs were substantially increased across the board in December 1990. Some of these increases were rolled back in July 1991, but tariffs are generally 5 to 10 percentage points above their previous levels. This is despite a reduction of 5 percentage points in most machinery tariffs to 80 percent, and the introduction of a maximum rate for ad valorem tariffs of 150 percent. This maximum does not apply to specific tariffs, some of which considerably exceed the equivalent of 150 percent ad valorem.

54. A committee has been appointed to formulate proposals for comprehensive tariff reform over the next five years. The committee has been asked to recommend ways and means for progressively reducing the maximum and average levels of tariffs, minimizing the use of specific tariffs, and simplifying the tariff structure with a view to substantially reducing the incidence of exemptions and partial exemptions. The committee will also recommend alternative revenue sources to compensate for revenue reductions which may follow from lower tariffs. On the basis of this review, the Government will have adopted a medium term plan to meet these objectives, and a substantial initial reduction in the maximum customs tariff will be introduced in the 1992/93 budget. This initial reduction is expected to have a quite limited impact on domestic production, but as the maximum level declines further in subsequent years it will put increasing competitive pressures on domestic industries.

55. In summary, the reforms contained in the adjustment program supported by the SAL/SAC will initiate liberalization of India's trade regime. The

measures that have already been taken by the authorities provide a firm basis for further liberalization and progress towards the Government's medium term objectives. However, the pace of further liberalization will be dictated to a large extent by the extremely tight balance of payments situation and the need to reduce the fiscal deficit. Imports have been severely repressed during the recent past, and there is likely to be substantial pent up demand. The likely surge in imports in response to liberalization highlights the urgency of bringing about a rapid and robust recovery of exports through changes in the incentive regime and new investment.

56. As a result of the trade reforms in the adjustment program, it is expected that the share of the domestic production of internationally tradeable goods (including foodstuffs, coal and petroleum products) free of nontariff barriers will have increased from about 10 percent to about 35 percent. Nearly all manufactured intermediate items will be freely importable subject only to tariffs and the prior purchase of Eximscrip in some cases. Likewise, current Reserve Bank foreign financing requirements are, in most cases, free of detailed import licensing requirements, even though clearances will still be needed for larger projects.

57. As well as the removal of import licensing, on completion of the SAL/SAC-supported reforms, the import process will have become much more flexible and competitive as a result of the removal of parastatal import monopolies and the abolition of the rules which currently inhibit or prevent the activities of private importers. On the export side most controls will also have been removed. It is expected that the new maximum level for tariffs will eliminate a substantial number of clearly excessive tariff rates and will send a clear signal as to the Government's intentions on tariff reduction in the subsequent four to five years. After taking into account these changes and the reforms of the export incentive regime which have already been implemented, the trade regime will be considerably more transparent, and discretionary decision making, while by no means eliminated, will have a much reduced role. This in turn will reduce uncertainty and transaction costs for the business community.

E. Reform of the Financial System

Background

58. Since independence India has witnessed the development of a deep and well-diversified financial system with a broad variety of banking and capital market institutions and instruments. In terms of depth, i.e., broad money to GDP ratio, the banking sector ranks in the top quarter of developing countries, and is institutionally specialized between commercial banking and term lending institutions. The country's capital market is deep and sophisticated and has found investors particularly receptive in recent years. With a market capitalization of US$39 billion as of end-1991, the Bombay Stock Exchange (SOE) (the largest of India's nineteen stock exchanges, accounting for 70 percent of total capitalization and turnover), is the nineteenth largest in the world. In terms of investor base, i.e., numbers of individual shareholders, the Indian market is the third largest in the world, behind only those in the United States and Japan. Throughout the 1980s, the equity market witnessed rapid growth in all aspects, including the number of companies listed, the trading volume, as well as the amount of fresh capital raised. Furthermore, the country's large and

rapidly growing bond market has become an important source of debt capital to both the public as well as the private corporate sector.

59. The Government's control of the financial system is, however, excessive, and it has maintained a dominant ownership position in commercial banking, insurance, and development finance since nationalizing many institutions in these areas in 1969. Moreover, it has exerted considerable direct influence over the operation of capital markets, including pricing of new issues, margin trading, and corporate take-over activity. Commercial banking is overwhelmingly dominated by twenty large public sector scheduled commercial banks which account for over 90 percent of total commercial bank assets. Term lending business is even more dominated by development finance institutions (DFIs) created by the state to provide term credit to agriculture, industry, exports, and housing. The Government's dominance of the financial system has enabled it to achieve multiple objectives including mobilization of resources, integration of the rural population into the financial mainstream, enhancement of availability of long-term loans to all levels of industry and agriculture, and increased access to credit to small industrialists, farmers and weaker sections of society.

60. These notable achievements have, however, been accompanied by some serious emerging imbalances. First, mandatory investments in illiquid and low yielding Government securities through the statutory liquidity ratio (SLR) requirements have pre-empted an increasingly large proportion of bank assets, and have limited the scope for proper asset management. In addition, high cash reserve ratios (CRRs), well in excess of prudential norms, have also been used to further divert resources from the banks. Second, directed lending to the priority sector consisting of agriculture, small-scale industry and small trade, at subsidized rates have eroded bank profitability and resulted in the build up of a large stock of non-performing assets. Third, the role of private sector in the banking industry is marginal and, along with other barriers to entry and exit, has severely limited competition. Fourth, the standard of prudential regulation and supervision of financial institutions, particularly in the capital markets, is inadequate and needs to be strengthened to ensure an orderly growth of the system.

Reform Strategy and Recent Initiatives

61. As outlined in the Letter of Development Policy, the thrust of the Government's medium-term reform strategy for the financial system would be to effect a transition to a market-based system operating within a sound prudential regulatory and supervisory framework. Some important steps in this direction have already been taken. All regulated deposit rates have been increased in several stages, term lending rates for non-priority sector loans have been liberalized, with both the development finance institutions (DFIs) and commercial banks receiving the freedom to set rates according to market conditions and borrowers' creditworthiness (subject to a floor of 15 percent for DFIs and 20 percent for commercial banks). In addition, money market instruments such as certificate of deposits, 182-day Treasury Bills, commercial bills, and commercial paper have been introduced, and a high level committee (the Narasimham Committee) has been established to review the structure and overall functioning of the financial system, including the scope and form of targeted credit schemes, and to advise the Government on reforms by mid-November 1991.

62. Measures have also been taken to strengthen capital markets: interest rates for debentures (except for tax-free bonds for the public sector) have been freed; the coupon rate on government long-term bonds has been raised; and two Committees (the Pherwani and Dave Committees) have been established to respectively: (i) review the need for establishing new stock exchanges and to improve the wo king of existing ones; and (ii) review the existing regulatory framework for the mutual funds industry with a view to preparing draft legislation for regulation of mutual funds and other offshore funds, including such funds which may be set up in the joint/private sector. The report of the Pherwani Committee has already been submitted to the Government, and the Dave Committee's report will be completed in the next few months.

63. Building upon the progress already achieved, the strategy to bring about the transition toward a market-based system relies on the promotion of a healthy competitive environment coupled with greater autonomy for banks in their lending and asset management decisions. This strategy requires actions in the following four areas: (i) reducing the level of directed investments via SLR; (ii) reducing the scope of targeted credits; (iii) establishing a level playing field among banks and development financial institutions regarding their funding sources and tax treatment of financial instruments; and (iv) promoting greater private sector participation in the banking and mutual funds industry. In addition, to ensure the soundness of financial institutions, increasing autonomy should be accompanied by prudential regulations and an accounting framework that conform with international norms.

64. In the area of capital market development where India's financial system is distinguished by its depth, number of stock exchanges, and investor base, the key concerns are: (i) the lack of liquidity particularly in small stock exchanges outside the principal metropolitan areas; (ii) the lack of infrastructural facilities and outdated trading and settlement systems; and (iii) an inadequate regulatory and supervisory framework to safeguard investors' interests and promote the orderly growth of the market.

65. Under the adjustment program, the Government would formulate and implement further reforms of the financial sector over the coming months, in addition to actions already taken (paragraphs 61-62). As detailed in the policy matrix (Annex III), these measures would include: (i) a phased reduction, beginning in Fiscal Year 1992/93, in the pre-emption of bank credit through the statutory liquidity ratio (currently at 38.5 percent), consistent with the reduction in the central Government fiscal deficit, and with the overall improvement in the management of Government's domestic stock of debt; (ii) a substantial reduction in the amount of subsidies associated with priority lending schemes through a more stringent definition of groups eligible for the subsidy, and adjustment in associated interest rates; (iii) fostering competition, initially by allowing private sector participation in the mutual funds industry; (iv) improving the trading mechanism of stock exchanges, including a system of national clearing and settlement and setting up a central depository trust; and (v) strengthening the prudential regulation and supervision of capital markets by presenting legislation to Parliament to empower the Stock Exchange Board of India (SEBI) to operate as an independent regulatory body.

66. These measures would form the basis for proceeding to the next phases of the reform which, along with the progress achieved in reestablishing macroeconomic balance, would aim to strengthen banks' asset portfolios and their

capital base, deregulate term deposit rates, develop a sound regulatory and accounting framework, improve liquidity in the Government's secondary-debt markets, and facilitate entry in the banking sector. In support of these measures, the authorities have requested the Bank's assistance initially in the form of a financial sector adjustment loan.

F. Public Enterprise Reform

Major Issues

67. Public enterprise involvement in most sectors of the economy has formed a central element of India's development strategy. The central and the state governments have established over 1,000 public enterprises (244 at the central level), holding monopoly positions in many critical basic industries, such as steel, oil and gas, coal, power, and petrochemicals, and in services such as railway transport and telecommunications. Over the years, the public sector has spread into diverse activities--such as hotels and construction--often far removed from the "commanding heights" of the economy which had been its original rationale. Public enterprises account for the bulk of organized-sector employment in the Indian economy: 95 percent in electricity and other utilities, 98 percent in transport and communications, 95 percent in mining, and 30 percent in manufacturing in 1989.

68. The fundamental concerns underlying the reform of public enterprises in India relate, first, to their extremely low financial returns, rigid and distorted managerial incentive structures, excess staffing, heavy reliance on budgetary resources for investments and operations, and, second, to the high cost structure that their inefficiency imposes on the rest of the manufacturing sector, with consequent adverse implications for international competitiveness. Of the 244 central public enterprises (CPEs), ninety-eight were loss-making in 1989/90, with aggregate losses of about Rs. 19.6 billion and, of these, forty-seven were considered chronically sick, having made cash losses continuously for at least five years and with negative net worth. Including the profitable petroleum/petrochemical companies, the aggregate net return, i.e., after tax and interest, on capital employed, has averaged only about 2.5 percent per year in the 1980s, significantly lower than the average subsidized cost of debt of about 10 to 12 percent per year, depending on the source of funds.

69. The reasons underlying the poor financial returns earned on public investments are various, including: overmanning amounting to about 25 to 33 percent; lack of managerial autonomy and accountability; adverse incentives due to explicit Government guarantees and availability of funds; and the conflicting multiple objectives to which public enterprises have been traditionally subjected. As an instrument of public policy, public enterprises have been expected to promote industrialization, generate employment, assist the development of small-scale and ancillary industries, redistribute income and wealth, encourage balanced regional development and stimulate import substitution. These objectives, combined with lack of autonomy or accountability, have made it very difficult to follow consistent commercial strategies geared to efficiency enhancement and balanced growth.

Reform Strategy and Recent Initiatives

70. The Government's program dealing with the public enterprise sector addresses the most pressing areas for reform: stopping the drain on the budget; creating competitive pressures for improved performance; restructuring or closing chronic loss makers; arresting the expansion of the sector; and tapping private finance and initiative. These measures begin a medium-term program of change which will address deep-seated institutional problems and further rationalize the scope of the sector through closure, restructuring, or divestiture.

71. As a first step toward this strategy, the Government has reduced the industries reserved for the public sector from eighteen to eight, all of which involve strategic considerations or resource extraction. This move, combined with measures introduced under the new industrial policy to ease restrictions on private entry, will increase competitive pressure on many public enterprises. In addition, a number of subsidized prices have been raised (e.g., fertilizer), an important step toward freeing markets. At the same time, the Government has moved to harden the budgets of CPEs by cutting non-plan loans and transfers by 25 percent in the fiscal year 1991/92 budget and by reducing budgetary support for plan investment by 10 percent. Finally, the Government will sell 20 percent of equity in selected profit-making CPEs to mutual funds and other financial institutions as an initial step toward longer-term divestiture.

72. The measures taken by the Government mark a promising first step in the reform of public enterprise sector. Further elements in this process under the adjustment program include the following:

73. Rationalization of the scope of the public sector. This involves, first, prevention of further proliferation of public enterprises. The existing portfolio of CPEs will also be reviewed from this perspective, leading to shedding of inessential components. The Government's existing policy of refusing to take over sick private firms will be continued and strengthened.

74. Phasing out budgetary support for CPEs. In order to "harden" the budget constraint faced by CPEs, the Government intends to phase out budgetary support and loan guarantees for CPEs, except in energy, transport, and other infrastructure. These measures will force CPEs to compete for funds on an equal basis with the private sector. Specifically, supported by the SAL/SAC, the Government will put in place a program for phased elimination of budgetary transfers and loans to sick CPEs, except in infrastructure, by the end of 1994/95. Over the same time period, budgetary plan support for non-infrastructural public enterprise investments also will be ended. Government loan guarantees for CPE borrowings will be limited to essential infrastructure, oil and mineral resource extraction, and strategic-related activities.

75. Disinvestment of Government equity in public enterprises. This is intended to further both fiscal and efficiency objectives. Proceeds from sales of CPE equity will temporarily ease the burden of fiscal adjustment. It is also hoped that partial private ownership will provide a better climate for CPEs to improve efficiency. The initial program to sell 20 percent of the equity of selected CPEs to mutual funds and other financial entities will be completed by March 1992. The divested equity will then be resold to the general public in a manner that promotes confidence in the divestiture process and avoids disruption of capital markets. Building on the 20 percent disinvestment, a program to raise

the private equity share to 49 percent in profitable CPEs within three years will be promulgated by the Government.

76. Development of a viable exit policy for public enterprises. The Government will take a two-pronged approach to exit policy for public enterprises. In the case of CPEs that are patently unviable, the Government will develop a program for expeditious closure, with suitable provisions to alleviate the burden on displaced workers. The Bank intends to support such measures as part of a project dealing with the social dimensions of adjustment. Other public enterprises facing financial difficulties will be referred automatically to BIFR for assessment of their prospects for return to viability, and subsequent rehabilitation or winding up.[3] An essential part of a viable exit policy for public enterprises is an effective safety net to provide compensation and transitional support to displaced public enterprise workers.

G. Social Dimensions of Adjustment

77. The Government's agenda for stabilization and reform carries a risk of significant transitional costs. These costs include potential losses of output, employment and consumption due to the deflationary impact of fiscal consolidation, and frictions in the process by which productive resources move between alternative uses in response to changes in economic incentives. The slowdown in growth anticipated for the next year or two is likely to lead to a stagnation in per capita real incomes, and some segments of the population may experience a significant fall in living standards. The main losers are likely to be the small minority of the population that benefitted from the rents created by the previous restrictive and distorted economic environment. However, a large proportion of India's population continues to be subject to malnutrition and ill-health, and does not have the educational skills and access to means of production that will enable it to participate fully and benefit from the growth process. For this group, government expenditure restraint as well as the restructuring steps envisaged above may prove particularly costly. In the short term, some urban poor, particularly the unemployed and underemployed, and displaced workers are also likely to be adversely affected by the adjustment program. Urban wages for unskilled and semi-skilled labor in particular would probably decline in real terms as Government expenditures are reduced, and the liberalization of firm exit and international trade lead to job losses in inefficient public and private enterprises.

78. Industrial reservations, labor and labor-management regulations, and protection from foreign trade have all militated against competition in Indian industry and, hence, against employment creation. The proposed reforms in trade, industry, taxation and finance will therefore have beneficial effects upon employment and income. Importantly, the relative price changes stemming from structural reform and the increased availability of imports are likely to improve rural welfare, thus spreading the benefits of adjustment widely. However, distribution of the gains from restored growth is unlikely to be even, and poverty and economic hardship will remain difficult problems, particularly for

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[3]Improvements in the BIFR process itself, now being prepared by the Government, also will be necessary to make this an effective, smooth, and reasonably expeditious exit mechanism for public enterprises.

traditionally vulnerable groups such as scheduled tribes and castes, and women in rural areas, whose access to productive assets is constrained, and who are faced with disease, unemployment and hunger for significant portions of the year. The reform of the public sector enterprises may also lead to some reduction in services as well as higher tariffs, particularly for water and electricity. These changes will be particularly difficult for low-income unemployed and under-employed urban households, and for redeployed workers during the transition.

79. Although specific measures will be required to alleviate the burden of some of these changes, the Government's effort to moderate the costs of the adjustment program is concerned primarily with creating employment opportunities. Generation of employment opportunities is being pursued along several policy avenues. Short-term interventions are being devised to create jobs through priority public works and food-for-work programs, and to retrain redeployed workers. However, in the medium term, the principal concern would be to continue capital deepening, as well as improvements in capital and labor productivity. Strengthening structural reforms, particularly of trade, tax and regulatory policies that affect the level and efficiency of investment, would be critical. Finally, the Government intends to promote labor-intensive activities, consistent with India's comparative advantage, and which would offer scope for increasing job opportunities that match available skills, particularly in manufacturing.

80. The Government's adjustment effort would also work through its expenditure programs to make a substantial improvement in the delivery of social services and the establishment of basic infrastructure. In the context of a shrinking budget, Government is refocusing social expenditures, particularly in health and education, towards the poor. Additionally, cost-effective compensatory programs, particularly in the areas of nutrition and employment, are being strengthened and broadened. Recurrent expenditures for equipment, materials, and other supporting inputs in health, education and other basic needs will also be increased. In the Government's development budget, investment programs in social development are being more carefully targeted to increase the access of poorer groups to services that improve their productivity and participation in economic growth.

81. The Government recognizes that, in addition to the risks of adverse economic shocks and an inadequate private investment response, the adjustment program faces the risk of successful opposition from groups who may perceive that they are being asked to bear a disproportionate share of the costs of the program. Retrenched workers and sectors facing reduced rents, subsidies and/or higher user-fees could play a vocal role in striving to delay or defeat reforms intended to improve budgetary management. The Government hopes to forestall such socio-political risks by balancing and timing higher service costs with improved service provision, mitigating transitional unemployment through achieving overall economic growth, providing generous compensation benefits to redeployees, and implementing retraining and temporary job creation programs under a national social security fund (the National Renewal Fund) proposed in the 1991/92 Union Government budget.

H. Macroeconomic Prospects and External Financing Requirements

Evolution of the Economy

82. If the fiscal adjustment and structural reforms outlined for the next few years are implemented fully, the medium term prospects for India's achievement of growth rates surpassing those of the second half of the 1980s, along with restored internal and external financial balance, would be very good. The stabilization measures taken thus far, including a severe compression of imports, tight credit policies, and the exchange rate adjustment of the rupee, have been successful in addressing the immediate problems of strengthening external confidence and restoring foreign exchange reserves. In conjunction with an amnesty scheme for remittances from abroad, and a new issue of convertible bonds for non-resident Indians, these measures contributed to a recovery of foreign exchange reserves from their low level of US$1.1 billion at the end of June 1991 to about US$2.1 billion on November 1, 1991.

83. Staff projections of key indicators of macroeconomic performance over the next several years are shown in Table 1. For 1991/92 as a whole, GDP growth is likely to fall in the range of 2 to 2.5 percent, with significant declines in both private and public investment. However, as Table 1 shows, private investment should rebound in 1992/93 to about the level of the latter 1980s, as the foreign exchange situation eases, and credit and import restrictions are relaxed. Public investment, on the other hand, would probably decline in real terms in both 1991/92 and 1992/93, reflecting the restructuring and rationalizing of public sector activity. Nevertheless, the projected recovery of private investment activity should be sufficient to set the stage for a recovery of growth in 1992/93.

84. Over the medium term, the substantial contraction of the public sector required by the adjustment program would reduce the extent of public sector pre-emption of financial resources, and further improve the prospects for a strengthening of private investment. As a share of GDP, private investment would increase steadily to about 16 to 17 percent of GDP by 1999/2000. Although public investment would decline in real terms during the first few years of the adjustment process, this would ultimately be reversed in order to allow for essential infrastructure investments. As a share of GDP, public investment would recover from a low of 8.7 percent in 1993/94 to about 10 percent by the end of the decade.

85. In view of the need to restrain domestic absorption during the program period, export growth would be an important stimulus to growth of output and employment. The structural reforms under implementation and envisaged by the Government of India would generate greater internal and external competition. This would help raise the efficiency of both new and existing investments, particularly in the private sector. Therefore, as the composition of aggregate investment changes in favor of private investment, productivity of the economy as a whole would begin to rise. Reform of the trade regime through the elimination of quantitative restrictions and substantial reductions in tariff rates, together with a significantly depreciated real exchange rate and domestic deregulation of the industrial sector, should render India's exports much more competitive internationally. Thus, export growth in real US$ terms, which is likely to fall below 2 percent in 1991/92, is projected to exceed 10 percent beginning in 1992/93.

Table 1 Summary of Macroeconomic Projections

	Estimate	Projections					
	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1999/2000
Growth, investment and inflation (%)							
GDP growth	5.0	2.1	3.0	3.6	4.0	5.3	6.1
GDP growth per capita	2.6	0.2	1.1	1.7	2.1	3.3	4.3
Gross domestic saving/GDP	20.4	19.8	20.6	21.3	22.5	23.5	26.3
Gross domestic investment/GDP	23.2	21.7	22.1	22.6	23.4	24.1	26.5
Private investment	12.6	11.8	13.0	13.8	14.2	14.9	16.6
Public investment	10.6	9.9	9.1	8.7	9.2	9.2	9.9
Inflation rate (GDP deflator)	10.1	11.0	7.0	6.5	6.0	5.5	5.5
Public sector balance (% of GDP)							
Central government fiscal deficit	9.0	6.5	5.0	4.5	4.0	4.0	4.0
Public sector deficit[a/]	10.5	8.0	6.5	5.5	5.0	5.0	5.0
External sector							
Export growth (in real US$, %)	5.0	1.2	10.4	10.9	11.0	10.4	8.6
Import growth (in real US$, %)	2.2	-3.2	4.1	5.1	4.7	5.8	6.2
Current account balance (US$ m.)	-9829	-6303	-5598	-5300	-4584	-4154	-3512
Current account/GDP (%)	-3.5	-2.6	-2.4	-2.1	-1.7	-1.5	-0.9
Foreign exchange reserves (US$ m.)	2338	2550	3166	4395	5610	5970	18010
Reserves in months of imports	1.0	1.3	1.5	1.8	2.1	2.0	3.7
Exceptional financing (US$ m.)	3549	3681	2850	2600	2050	500	0
Total external debt (US$ m.)	70122	74755	81083	86822	91426	94247	111216
Total external debt/GDP (%)	24.7	31.4	34.3	34.8	34.4	33.3	28.9
Debt service/exports (%)[b/]	28.8	27.7	26.6	25.7	26.8	27.5	18.0

a/ Refers to saving-investment gap of the consolidated public sector, which includes the Central and State Governments, and nonfinancial public enterprises.

b/ Exports of goods and nonfactor services, including workers' remittances.

86. Strengthening the price competitiveness of India's exports will require effective containment of inflation. Prompt action to further tighten monetary policy in October has already helped to slow the pace of price inflation in 1991/92, and the current restrictive stance of monetary policy should be sufficient to keep the overall increase in prices (as measured by the GDP deflator) in 1991/92 to about 11 percent as compared to 10 percent in 1990/91. As the fiscal correction and other adjustment measures take hold, inflation should fall rapidly to international levels by the mid-1990s. This should allow India to maintain the competitiveness of its exports without excessive recourse to exchange rate adjustments.

87. Despite the slowdown in export growth, the current account deficit in 1991/92 is projected to decline from US$9.8 billion (3.5 percent) in 1990/91 to US$6.3 billion (2.6 percent). Given the current level of foreign reserves, such an outcome would allow for a build-up of foreign exchange reserves by the end of the year to about US$2.6 billion. As export growth strengthens in 1992/93, the current account deficit should fall further to about US$5.6 billion (2.5 percent of GDP), and India's external payments situation and creditworthiness would improve. However, the extent of further foreign exchange reserve accumulation in 1992/93 would be somewhat constrained by the substantial import requirements of the restructuring effort and the prudence of limiting India's commercial borrowing.

88. With further improvements in export performance, both the current account deficit ratio to GDP and external debt service ratio would decline over the remainder of the decade, falling to about 1 percent and 18 percent respectively by 1999/2000. However, restoring stability to India's capital account would be a gradual process, and the economy would remain vulnerable to adverse external shocks or policy slippage over the next few years. As Table 1 shows, primarily as a result of the substantial recent exchange rate adjustment, India's external debt to GDP ratio would rise from around 25 percent in 1990/91 to about 35 percent in 1993/94. Moreover, during the mid-1990s, there would be a temporary increase in the proportion of foreign exchange receipts preempted by external debt service due to repayments of debt contracted during the 1980s, as well as repurchases in respect of the recent IMF drawings. In spite of these increasing claims, India's external liquidity position should improve steadily with foreign exchange reserves rising to two months of imports by 1995/96, and to 3.7 months of imports by the end of 1999/2000.

External Financing Requirements

89. The large annual repayments associated with India's external debt (estimated at US$70 billion at the end of March 1991), and the continuing need to rebuild foreign exchange reserves indicate that exceptional balance of payments support would be needed in both the near and medium term. Table 1 shows that despite the large projected current account adjustment the exceptional financing requirement in 1991/92, over and above likely inflows of project aid, commercial borrowing, and non-resident Indian (NRI) deposits, is projected to be US$3.7 billion. Some of this exceptional financing has already taken place, including fast disbursing loans from the ADB, Japan, IBRD and IMF, and a gold-backed transaction. Most of the remaining financing is assumed to be provided by further drawings from the IMF and disbursements from the first tranches of the proposed SAL/SAC and a planned Financial Sector Loan from the Bank. Donors

responded positively to the request for exceptional financing during the recent Aid Consortium meeting, with about US$6.7 billion in overall pledges (US$4.5 billion from multilateral and US$2.3 billion from bilateral sources), an increase of around 6 percent from last year's level. Equally important, pledges of quick disbursing balance of payments assistance amounted to US$2.3 billion, of which US$700 million was from bilateral donors. Of the latter, some US$300 million remains to be disbursed in 1991/92. Several donors have indicated interest in associating their fast-disbursing assistance with the proposed Structural Adjustment Loan/Credit. Germany has agreed to provide co-financing in the amount of DM 45 million with the proposed operation.

90. In the absence of any major external shock or disruption to domestic production, India's exceptional financing requirements should decline gradually, beginning in 1992/93. However, the need to rebuild reserves and the bunching of repayment obligations indicate that India would require continued substantial exceptional financing through 1994/95. Specifically, in each of the next three years, India would require exceptional financing from multilateral donors of an average of about US$2 billion per annum. Bilateral donors would need to provide about US$500 million of fast disbursing assistance in each year to supplement these resources.

PART III. THE PROPOSED SAL/SAC

A. Loan/Credit Objectives

91. The proposed structural adjustment loan and credit is for the equivalent of US$500 million, equally divided between IBRD and IDA. It is proposed that the first tranche be US$300 million, and that the remainder be disbursed in the second tranche. The amount of each tranche is also proposed to be equally divided between the loan and credit. It would support the initial phase of the Government's program of macroeconomic stabilization and structural reform. In addition to a major fiscal adjustment effort, the main areas covered by the program are: (i) deregulation of domestic industry and promotion of foreign direct investment; (ii) liberalization of the trade regime; (iii) reform of domestic interest rates coupled with measures to strengthen capital markets and institutions; and (iv) initiation of public enterprise reforms.

B. Conditions of Effectiveness and Tranche Release

92. The first tranche would be available upon loan/credit effectiveness. The release of the second tranche, planned for April-May 1992, would be contingent upon satisfactory overall progress on program implementation and the implementation of specific conditions detailed in the policy matrix (Annex III), and summarized below (paragraph 93). As part of the Bank's/Association's continuing policy dialogue with the Government, it will monitor the Government's macroeconomic program, articulated in its Letter of Development Policy, to ensure that it remains fully consistent with the implementation of structural adjustment reforms.

Second Tranche Release

93. The second tranche would be released after the Government has provided the Bank/IDA with satisfactory evidence that:

- guidelines have been issued that industrial licensing decisions on grounds of location will be based solely on environmental, safety, land-use, congestion, urban planning and related concerns;

- the 25 percent and Rs. 20 million limits on automatic approval for capital goods imports have been raised to 50 percent and Rs. 100 million respectively;

- a satisfactory plan of action has been adopted to deregulate and decontrol the steel industry, including, *inter alia*, removal of price and distribution control.

- amendments to the Sick Industrial Companies Act of 1985 have been prepared and submitted to Parliament to institute more appropriate criteria for sickness, strengthen the Board for Industrial and Financial Reconstruction (BIFR), improve its functioning; and streamline and facilitate procedures under BIFR;

- the objectives, scope, structure, operations, sources and methods of funding, criteria and mechanisms for providing support to workers, nature and amounts of such support, and other details of the National Renewal Fund have been specified;

- based on the review and recommendations of the inter-ministerial Working Group a satisfactory policy has been formulated to facilitate adjustment by industrial firms taking into account the need for adequate safeguards for workers, programs for re-deployment and retraining, and appropriate compensation where necessary.

- all RBI restrictions related to cash margins, queuing system for L/Cs, and capital goods financing requirements have been eliminated;

- intermediate goods on the restricted list (Appendix 2B of the Import and Export Policy, 1990-93) corresponding to at least two-thirds the protected domestic production have been moved to be freely importable by Eximscrip or on OGL. However, consumer goods will continue to be restricted and will remain on Appendix 2B of the Import and Export Policy, 1990-93. Certain products will also continue to be restricted for health, environmental and security reasons;

- implementation of a satisfactory program of reductions and elimination in the official foreign exchange allocated to the public sector agencies in connection with the phasing out of dual pricing of previously decanalized items, and decanalization of all remaining canalized products except petroleum products, fertilizers, oilseeds, cereals, certain fatty acids and acid oils, and other acceptable products. In the case of the products for which

private importers must use Eximscrip, either require the canalizing agency to also use Eximscrip from the date of decanalization or announce a satisfactory program of progressive reductions and elimination of official foreign exchange to the public sector agencies in order to phase out dual pricing;

◊ permitting all unlisted capital goods to be imported with Eximscrip whether or not the Eximscrip is earned by the exports of the importing firm. Remove a substantial proportion of capital goods (corresponding to at least 50 percent of protected domestic production) from the capital goods restricted list (Appendix 1A of the Import and Export Policy, 1990-93). Production from which protection by import licensing is removed will not include capital goods the import of which remains restricted for health, environmental or security reasons;

◊ the "Actual User" requirement for imports has been abolished;

◊ the Limited Permissible List (Appendix 3 of the Import and Export Policy, 1990-93) has been abolished and announcement is made that all products not on Restricted Lists, the Canalized Lists, or the OGL lists are importable with the use of Eximscrip;

◊ the purchase preference given by The Directorate General of Supply and Disposals (DGS&D) to domestic suppliers over the duty paid price of imports has been abolished;

◊ all export licensing, canalization and minimum export prices except for a satisfactory negative list have been removed;

◊ completion of the customs tariff review and adoption of a satisfactory medium term plan to reduce tariff rates with a substantial initial reduction of the maximum customs tariff introduced in the 1992/93 budget;

◊ the Statutory Liquidity Ratio required to be maintained by the scheduled commercial banks has been reduced consistently with reduction of the fiscal deficit of the Central Government;

◊ based on the recommendations of the Narasimham Committee, a satisfactory program of action to reduce interest subsidies in areas of directed credit has been formulated;

◊ legislation to give SEBI statutory status in order to operate as an independent regulatory body, including power to investigate with due diligence, has been presented to Parliament;

◊ a satisfactory program of action to reform the trading mechanism of stock exchanges, including a system of national clearing and settlement and setting up a central depository trust has been adopted;

◊ based on the recommendation of Dave Committee, a satisfactory program of action for setting up of mutual funds in the private sector, has been formulated and adopted;

◊ implementation of the initial phase of a satisfactory phased action plan to eliminate within three years (i.e., by the end of fiscal year

1994/95) budgetary transfers and loans to sick central public enterprises and budgetary plan support (loans and equity) for public enterprise investments except in energy, transport, and other infrastructure. Under the action plan, Government guarantees of central public enterprise borrowings will be limited to essential infrastructure, exploitation of oil and mineral reserves, and strategic-related activities;

- in the case of units that are patently unviable, the Government has formed a satisfactory action program to initiate restructuring and closure procedures;

- the Government has taken actions to ensure that, except for central public enterprises already determined to be potentially unviable by the Government (see previous item) all public enterprises that are sick according to the criteria specified in the Sick Industrial Companies Act (SICA) henceforth will automatically be referred to the Board for Industrial and Financial Reconstruction (BIFR) for assessment of their prospects and subsequent winding up or rehabilitation, and all such sick central public enterprises have been referred to BIFR;

- the detailed program for disinvestment of 20 percent of equity in selected public enterprises, to yield Rs. 25 billion has been finalized and approved by the Government and implementation of the program has been completed by the end of 1991/92; and

- building on the 20 percent disinvestment, an action program to progressively increase the private equity share in profitable central public enterprises to 49 percent within three years has been promulgated by the Government, along with a list of the companies concerned and a timetable for implementation.

These conditions are expected to have been met by April-May 1992.

C. Loan/Credit Administration

Procurement

94. The proposed loan and credit totalling US$500 million would finance 100 percent of the c.i.f. costs of general imports, excluding *inter alia* luxury goods, military equipment and environmentally hazardous products. Imports valued at US$5 million and above by both public and private sector entities would be procured in accordance with simplified ICB procedures except for certain commodities which are traded in international markets. For a list of these commodities agreed with the Bank/Association, other procedures acceptable to the Bank/Association may be used. Imports valued at below US$5 million by public sector entities would be procured using their own procurement procedures. The specific import procedures followed by many public sector organizations have been reviewed in connection with recent Bank/Association operations and determined to be satisfactory. The procedures used by others would be reviewed before their imports would become eligible under the loan. Imports valued at below US$5 million by private sector firms would follow established commercial practice. The Bank/Association is reviewing the procedures used by a sample of potential private sector importers to ensure that they are satisfactory.

Contracts for imports valued at less than US$100,000 would be ineligible for Bank/Association financing. Procurement will be coordinated by the Ministry of Finance under arrangements acceptable to the Bank/IDA.

Disbursement

95. The proceeds of the proposed loan and credit would be disbursed against the foreign costs of general imports based on a standard negative list which includes, inter alia, luxury goods, military equipment and environmentally hazardous products. Both private and public sector imports would be eligible for financing. Retroactive financing up to US$100 million equivalent (i.e., US$50 million equivalent each under the loan and credit) would be provided to reimburse expenditures for eligible imports incurred after July 31, 1991. To facilitate disbursements, Special Accounts would be established in the Reserve Bank of India with an authorized allocation of US$100 million equivalent under the loan and US$100 million equivalent under the credit which, in total, is equal to the estimated average disbursements during a five-month period. Disbursements would be administered by the Ministry of Finance in coordination with the Reserve Bank of India. Withdrawal applications for reimbursement of expenditures under each contract valued less than US$5 million equivalent may be submitted under Statement of Expenditures (SOE) procedures. Withdrawal applications for all other expenditures would be fully documented. Documentation in support of SOEs would be retained by the Ministry of Finance. The proposed loan and credit are expected to be disbursed over a period of one year. The closing date would be December 31, 1992.

Accounts and Audits

96. RBI would maintain accounts and supporting documentation in respect of the project. Audits would be carried out by independent auditors acceptable to the Bank/Association within six months of the closing of the GOI fiscal year (March 31) in which disbursements under the loan/credit are made.

D. Monitoring

97. The adjustment program is being coordinated by the Department of Economic Affairs, Ministry of Finance. The proposed operation requires monitoring of the consistency of macroeconomic framework, as outlined in the Letter of Development Policy, and the implementation of specific actions detailed in paragraph 98. The monitoring of macroeconomic performance in particular will be closely coordinated with the IMF. The Bank/Association will also monitor the implementation and progress of reform actions through a mid-term consultation to be held prior to end-January 1992. In addition to serving as a catalyst to promote greater coordination among the various line ministries to which the SAL/SAC program relates, the review would provide a forum to discuss with the authorities the recommendations of several high level committees established by the Government and their incorporation, to the extent appropriate, in the 1992/93 Budget.

E. Risks

98. Given the external liquidity situation in India and the extent of the adjustment effort required, there are significant downward risks. Failure to follow through with the implementation of forceful stabilization measures and reforms is the first important risk. The reform process will change the complex system of rents and patronage which has been established over the last four decades and thus will affect the minority government's constituencies. The government's management of the politics of reform has consisted of stimulating public debate to forge the consensus necessary to sustain the process of reform. It has articulated, quite convincingly, the urgent need for reforms and actively sought the cooperation of political parties and various interest groups, including organized labor. Nevertheless, social/political reaction to the adverse transitional consequences of the adjustment program (e.g., labor retrenchment, subsidy reductions, and higher user fees and other administered prices which could fuel inflation in the short run) could slow the pace of reform and jeopardize its sustainability.

99. Absence of a strong supply response due to the sheer lack of essential intermediate and capital goods imports, is the second major risk associated with the program. The very severe import compression policy that has been pursued over the past several months has already restrained production and investment plans of many firms. It is well recognized that this policy has to be reversed very soon to avoid the danger of a slump in the manufacturing sector in particular. The recent improvement in the foreign exchange reserves makes feasible relaxing the import compression. Yet, the provision of imports at satisfactory levels hinges crucially on strong export performance and availability of adequate external financial assistance.

100. The third set of risks relates to both domestic and external factors over which the authorities have limited or no control. Domestically, the response of private investment will be critical to the success of the program. While the business community has so far been supportive of reform initiatives, the risk that a prolonged stabilization effort may hold back investment responses should not be underestimated. Externally, slow growth of world trade and unresolved international trade issues may lessen the prospect for a rapid export expansion in the medium term. Finally, inadequate transitional balance of payments support would undermine domestic political support for reforms, and technically complicate the implementation of the adjustment program.

PART IV. WORLD BANK STRATEGY AND OPERATIONS

A. The Bank Group's Role and Strategy

101. The Bank's strategy for assisting India gives highest priority to supporting India's efforts to restore macroeconomic equilibrium, accelerate structural reforms (especially in the areas of industry, trade, finance and public enterprises), and regain access to private credit markets abroad. These reforms, are essential to improving the efficiency, productivity and competitiveness of the economy to achieve the export growth necessary to strengthen India's creditworthiness and to support the future growth and development of the economy.

102. To these ends the Bank's operational strategy emphasizes: (i) country economic and sector work and policy dialogue with a sharpened focus on macroeconomic and structural reform issues; (ii) policy-based lending, beginning with the SAL/SAC and to be followed by a series of sector adjustment operations, in support of India's stabilization and economic reform program; (iii) investment and sector lending in support of efficiency-improving sectoral reforms and institutional development in agriculture, infrastructure, human resources and poverty alleviation; (iv) increased emphasis on private sector development (in close cooperation with IFC) and an orderly retrenchment of the public sector as essential elements of the adjustment program; (v) increased emphasis on aid coordination and cofinancing to shape the financing plan for the adjustment program and to rebuild and strengthen India's external financial structure; and (vi) careful management of the Bank's risk and exposure in view of India's weakened creditworthiness.

Economic and Sector Work

103. The Bank's economic and sector work gives highest priority to providing the macroeconomic and structural reform analysis needed for underpinning adjustment lending and policy dialogue in support of sustainable growth and development. Among the areas to be emphasized are sequencing and transitional aspects of reforms; public finance issues, including expenditure policies and state and local government finances; progress in poverty alleviation and employment creation; and energy and forestry sector reviews. In addition, special attention will be devoted to external debt management policies and practices.

Policy-Based Lending

104. The proposed SAL/SAC represents the first stage of the Bank's support for the adjustment program and will be followed by a series of sector adjustment loans designed to support subsequent stages of the reform effort. The Bank is particularly well-positioned, by virtue of recently completed economic and sector work, to develop follow-up policy-based loans to deepen the reform program in the areas emphasized in the SAL/SAC (finance, trade reform, industrial regulation, and public enterprise reform). Lending for adjustments in agricultural sector policy (including urgently needed reforms of the agricultural credit and pricing systems) and energy policy is also under consideration. The Bank's policy dialogue, in close coordination with an expanded program of IFC activities, aims at making private sector development and orderly public sector retrenchment dominant elements of the adjustment program. In addition, fast disbursing IDA lending in support of programs to address the social dimensions of adjustment will be included in the adjustment lending program.

Investment Lending Objectives

105. In addition to policy-based lending in the above-mentioned areas, IBRD lending will support efficiency-improving investments in agriculture and infrastructure. IDA investment credits will support programs addressing basic human needs and core development priorities, emphasizing poverty alleviation (especially through increased efficiency and production capacity in agriculture), human resource development and environmental protection. Sectoral issues and priorities are summarized below.

106. Agriculture. Agriculture still accounts for about 30 percent of GDP, and continued agricultural growth at historical rates or better is essential to economic growth and reduction of poverty in India. The Bank's assistance strategy for poorer states and regions emphasizes agriculture. Workers employed in agriculture tend to be the poorest and most vulnerable, including women. The Bank's strategy for improving agricultural performance will focus on the following critical areas: (i) reform of policies and incentives which inhibit growth and have contributed substantially to the growing fiscal deficit, in particular subsidies, price supports and agricultural trade restrictions; (ii) high priority investments in growth-inducing infrastructure and technology with continuing emphasis on irrigation and better research and extension for rainfed farming; and (iii) resource management, including conservation of land and water resources, land reclamation, forestry development and river basin protection. Increased attention will be paid to efforts to draw women more effectively into the mainstream of agricultural development.

107. Infrastructure and energy. Improvements in these sectors are urgently needed to reduce the present risk that bottlenecks in transportation and energy undermine the supply response of the ongoing reforms. The emphasis in transport will be on better planning and project execution and improved efficiency of transport operations (railways, roads and ports), and efficient pricing policies and encouragement of private sector participation. In urban development, the Bank will seek through urban sector work and lending operations to improve the productivity of the urban economy and the quality of urban living by promoting more efficient provision and operation of urban infrastructure and services. Efforts will focus on institutional strengthening and improved incentives for efficient local government.

108. In power, primary emphasis will be placed on addressing the sector's critical institutional and financial problems. Key pre-requisites for maintaining Bank lending levels to the sector include increases in power tariffs in real terms (especially for agriculture and residential uses) improved bill collection and strengthened management of the State Electricity Boards (SEBs). In the absence of such actions, power sector lending would be limited to: (i) viable private sector investments in generation and transmission; (ii) the few better managed SEBs that have maintained their financial strength or have taken specific steps to build it up; and (iii) innovative, small scale developments such as mini hydro and cogeneration schemes. In addition, the Bank will continue its dialogue with the National Thermal Power Corporation and the National Power Transmission Corporation and may finance the most critical components of these important central agencies' core investment programs.

109. Human resource development. The Bank will continue to expand support for efforts to improve access to, and the quality and efficiency of nutrition, health, family planning, and education investments that are oriented toward the poorer sections of the population. Women will be a special focus of all these efforts.

110. Bank objectives in the education sector are twofold. The first is to support the development of basic education. The second is to support the development of industrial training for craftsmen, technicians and engineers to expand the supply of competent and productive labor. In population, health and nutrition, the Bank's primary objective is to promote improved health in the most vulnerable groups and to assist in reducing fertility. In addition, Bank

economic and sector work will focus on the efficiency and effectiveness of health services and sanitation improvement needs to prevent waterborne diseases.

111. Environmental protection. The effect of the severe environmental degradation taking place in much of India is particularly devastating on some of the poorest sections of the population. Bank assistance will support India's efforts to preserve and enhance its resource base through projects related to rainfed agriculture, forestry, urban water supply and sanitation, and industrial pollution abatement. Increased attention is also being paid to environmental issues in energy and infrastructure projects and more generally through the application of the Environmental Assessment process to new and ongoing lending operations. Future assistance in these areas will be formulated within the framework of an Environmental Action Plan (EAP) to be prepared by the Government using UNDP-financed technical assistance.

112. Resettlement and rehabilitation. Resettlement issues are a major concern in the implementation of both Bank-assisted and other Government investment projects. They are of special concern in irrigation and hydro power projects. Guidelines to improve the resolution of these problems are being developed by the Government. In addition, the Bank is studying underlying issues, including the legal framework, the availability of land and the functioning of the land market, and drawing on lessons from successful resettlement.

Aid Coordination and Cofinancing

113. In the context of the comprehensive adjustment effort, the Bank as Chair of the India Aid Consortium will play a leadership role in mobilizing resources to meet India's financing needs over the next several years. The Bank, working closely with the IMF and IFC, will also seek to play a catalytic role in restoring India's access to private markets. Close cooperation with the IMF has been maintained during the preparation of the SAL/SAC and will be continued. We will also work closely with the ADB and other major donors in coordinating and strengthening the dialogue and lending strategy in key areas of sectoral policy reform. Parallel cofinancings with ADB are under discussion.

International Finance Corporation (IFC)

114. As of September 30, 1991, IFC had made investments in 58 Indian companies totalling US$1,010 million equivalent. India is IFC's third largest country commitment (after Mexico and Brazil) with US$547 million (9.6 percent) of IFC's total portfolio. About US$79 million of the commitments are in equity. The level of IFC's investments increased significantly over the past two years. In IFC's fiscal year 1990 approvals for India amounted to US$147 million in nine transactions. In fiscal year 1991, net investments totalled US$131 million in seven transactions with an additional amount of US$77.5 million in syndications approved and expected to be realized during fiscal year 1992. Disbursements for IFC's own account for fiscal year 1991 amounted to US$154 million. The past performance of IFC's Indian portfolio has been generally excellent, with prompt servicing of both loan and equity investments.

115. IFC's investment operations in the past three years have been characterized by considerable new investments in private sector power projects (all expansions of existing companies) and increasing investments in the capital

markets area. Investments in general manufacturing, IFC's traditional investment area in India, have been more limited. As a result, the largest single sectoral concentration of IFC investments at present is in the power sector with 27% of held portfolio (US$147.5 million), with the balance of investments well diversified.

116. In the expectation that the favorable reform momentum achieved so far will be sustained, IFC expects to expand and broaden its operations in India, with continued strong emphasis on efficient investments that can yield significant financial and economic benefits. Economic efficiency of industrial projects is particularly important during a period of continuing liberalization, when levels of effective protection can be expected to be reduced, and when the short-term effects of the adjustment program could lead to some reduction in demand. At the same time IFC's catalytic role could be helpful in permitting some high priority projects to proceed and in mobilizing other sources of finance as these become available.

117. Thus, IFC is at present giving priority to sound industrial expansion prospects which have a large foreign exchange content. Typically, such prospects can benefit from IFC's review of project and contractual arrangements and IFC can complement the role of other financing including that from the local financial institutions. The Corporation is currently considering a variety of investment proposals, including projects in general manufacturing, steel, power, textiles and the financial sector which could lead to a substantial increase in annual investment levels. These increased investment levels are expected to include an increased focus on equity investments, both in new start-up prospects and in expansions.

118. IFC also envisages playing a significant catalytic role by enhancing the international flows of foreign private funds in the form of both equity and debt. On the equity side, IFC can provide equity investment and comfort in the promotion of joint ventures where foreign companies invest directly in Indian companies. With its large domestic market, its educated, skilled, and competitively priced labor force, an improved exchange rate policy, and further deepening of reforms, India could become an attractive base for foreign private investment. In a reformed industrial and financial framework, IFC's experience in promoting joint ventures that bring together a combination of foreign direct investment, management, technology and markets on an ongoing basis (whether in industrial, services or capital markets projects) could prove extremely relevant to India's needs.

119. On a potentially larger scale, IFC can assist Indian companies in making international issues of equity or convertible securities. Discussions are underway with the Government and several companies. While a number of policy measures would need to be taken to permit such issues it is generally recognized that this could become an important supplemental source of foreign finance for the private sector. On the debt side of international capital flows, IFC can help in mobilizing commercial bank interest on favorable terms through participation in IFC loans. IFC already has a number of good prospects that will be syndicated as soon as suitable market openings develop.

120. In the financial sector the Corporation intends to assist in the development of the domestic capital market both through direct support for private sector financial services companies and venture capital and mutual funds

and also through provision of technical assistance. Progress in this area would be influenced by the pace of liberalization of the financial sector. In addition, wholesaling arrangements with financial institutions, such as agency credit lines to reach small-and medium- scale enterprises in a cost effective manner, will be considered where appropriate.

121. In order to help meet the growing needs of clients in India and the Region, IFC is in the process of significantly strengthening its Regional Mission in New Delhi.

122. IFC and the Bank have made special efforts to coordinate their respective operations and have worked closely in developing the Bank's policy dialogue in industry, finance and the private sector. Even closer cooperation is envisaged for the future.

Portfolio Management

12 The Bank's experience, shared with several of India's other donors, is of continuing weak project implementation capacity in most sectors in India, leading to slow and incomplete utilization of aid commitments. The Bank has made considerable efforts over the last few years to address some of the major problems which have led to slow disbursements. In addition, a full-fledged review of the portfolio, carried out jointly with the Government, has just been completed, leading to the identification of substantial portions of the undisbursed IBRD loans and IDA credits which can be canceled without interfering with the achievement of project objectives. A proposal is currently before the Board[4] to re-commit the IDA cancellations to India as fast-disbursing credits in support of its adjustment program. Our assistance strategy will continue to give priority to intensive portfolio management to improve the effectiveness of IBRD/IDA resource transfers and the sustainability of the development benefits.

B. The Bank's Lending Program

124. Until now, Bank lending to India has been almost exclusively in the form of investment lending. Over the past five years about 54 percent of Bank lending has gone into development of infrastructure, with power accounting for about 27 percent of total lending (see Table 2). Agriculture has accounted for 16 percent of the program with about one third of that in irrigation. Industry and finance absorbed 16 percent of the Bank program and population and human resources 10 percent.

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[4] Ref. R91-241 [IDA/R91-149], dated November 12, 1991.

Table 2 Bank Lending, Fiscal Year 1987/91
(billions of US dollars)

Sector	Amount	Percentage	Number of projects
Agriculture	2.1	16	13
Industry and finance	2.1	16	6
Power	3.5	27	10
Oil, gas and coal	1.5	13	5
Transport	0.8	6	5
Urban and water	1.1	9	7
Education	0.8	7	3
Population, health and nutrition	0.5	4	5
Other	0.4	3	1
Total	12.8	100	55

125. Over the next four-year period FY92-95, the level and composition of the lending program will be closely linked to progress in India's stabilization and reform program. It is envisaged that this lending program would draw on the following resources:

- IBRD lending of up to $2.0 billion per annum;
- IDA resources of approximately $0.9 billion per annum; and
- IDA resources of $0.65 billion from the redeployment of funds cancelled from the current IDA portfolio as proposed in the Board Paper (ref. paragraph 123).

Reflecting the projected pace of implementation of the Government's stabilization and reform program and its financing requirements, about one-third of the Bank's lending could take the form of policy-based loans and credits.

PART V. RELATIONS WITH THE IMF

126. As at the end of October 1991, India's outstanding obligations to the IMF totalled SDR 2379 million. Much of this reflects recent transactions with the IMF. Since January 1991, India has made drawings totalling SDR 1904 million from the Fund under a first tranche stand-by arrangement and the compensatory and contingency financing facility. On October 31, the IMF Board approved an additional stand-by credit to India in the amount of SDR 1656 million, to be drawn over the next twenty months.

127. Close cooperation with the IMF will be essential since both the Bank and the Fund are assisting India in the preparation of its stabilization and

adjustment program, expect to provide a major share of the funding, and are seeking to mobilize other official financing. The framework for this cooperation is in place. The Bank closely coordinates its economic and sector work and policy dialogue with Fund staff, and regularly reviews draft Fund staff briefing papers and reports. Less formally, Bank and Fund staff frequently exchange views on recent developments and policy options. Consultations between the two institutions are particularly close during the current difficult times facing India, and staff members participate in missions fielded by the other institution.

PART VI. RECOMMENDATION

128. I am satisfied that the proposed loan and credit would comply with the Articles of Agreement of the Bank and Association, respectively, and recommend that the Executive Directors approve the proposed loan and credit.

Lewis T. Preston
President

Attachments

Washington, D.C.
November 12, 1991

KEY MACROECONOMIC INDICATORS a/

	Actual			Prelim.	Projections						
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1997	1999
GDP Growth Rate	4.5%	10.4%	5.2%	5.0%	2.1%	3.0%	3.6%	4.0%	5.3%	5.8%	6.1%
GDY Growth Rate	4.5%	9.8%	4.8%	4.3%	3.8%	2.2%	3.8%	4.4%	4.8%	5.7%	6.2%
GDY/Capita Growth Rate	2.1%	7.3%	2.4%	1.9%	1.9%	0.3%	1.8%	2.5%	2.9%	4.0%	4.4%
Consumption/Capita Growth Rate	2.2%	6.3%	2.3%	2.5%	2.7%	-0.4%	1.1%	1.3%	1.8%	3.2%	3.7%
Debt Service (US$ m.)	5702	6307	6442	7143	6953	7496	8268	9860	11530	10631	12408
Debt Service/Exp. G.& Serv.	29.4%	30.3%	27.4%	28.8%	27.7%	26.6%	25.7%	26.8%	27.5%	19.6%	18.0%
Debt Service/GDP	2.2%	2.3%	2.4%	2.5%	2.9%	3.2%	3.3%	3.7%	4.1%	3.2%	3.2%
Gross Investment/GDP	22.7%	23.9%	23.6%	23.2%	21.7%	22.1%	22.6%	23.4%	24.1%	25.4%	26.5%
Domestic Savings/GDP	20.1%	20.8%	21.0%	20.4%	19.8%	20.6%	21.3%	22.5%	23.5%	25.0%	26.3%
National Savings/GDP	20.2%	20.7%	20.6%	19.7%	19.1%	19.7%	20.4%	21.6%	22.7%	24.3%	25.6%
Marginal National Savings Rate	18.8%	24.0%	20.3%	14.2%	15.1%	27.7%	27.6%	33.2%	32.7%	31.5%	31.2%
Public Investment/GDP	10.4%	9.8%	10.6%	10.6%	9.9%	9.1%	8.7%	9.2%	9.2%	9.6%	9.9%
Public Savings/GDP	1.5%	1.2%	0.5%	0.1%	1.9%	2.6%	3.2%	4.2%	4.2%	4.6%	4.9%
Private Investment/GDP	12.2%	14.1%	13.0%	12.6%	11.8%	13.0%	13.8%	14.2%	14.9%	15.8%	16.6%
Private Savings/GDP	18.7%	19.5%	20.1%	19.6%	17.1%	17.1%	17.2%	17.4%	18.5%	19.7%	20.7%
Ratio of Public/Private Investme	88.9%	68.7%	79.5%	84.0%	84.5%	69.8%	63.2%	64.8%	61.6%	60.7%	59.7%
Government Revenues/GDP b/	25.7%	25.5%	26.1%	25.9%	26.7%	25.7%	25.5%	25.6%	25.2%	25.1%	25.1%
Government Expenditures/GDP b/	24.2%	24.3%	25.6%	25.8%	24.8%	23.1%	22.3%	21.4%	21.0%	20.5%	20.2%
Deficit/GDP c/	8.9%	8.6%	10.1%	10.5%	8.0%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%
Export Growth Rate	8.1%	11.0%	12.1%	3.8%	1.0%	9.2%	9.9%	10.0%	9.6%	8.7%	8.1%
Exports/GDP	6.3%	6.7%	7.9%	8.0%	9.6%	10.9%	11.9%	12.9%	13.9%	15.6%	17.0%
Import Growth Rate	-1.8%	16.0%	-1.2%	1.1%	-2.0%	4.1%	5.0%	4.6%	5.7%	7.7%	6.0%
Imports/GDP	8.9%	9.7%	10.4%	10.8%	11.6%	12.4%	13.2%	13.7%	14.5%	16.9%	17.2%
Current Account (US$ m.)	-6397	-8677	-7888	-9829	-6303	-5598	-5300	-4584	-4154	-3495	-3512
Current Account/GDP	-2.5%	-3.2%	-3.0%	-3.5%	-2.6%	-2.4%	-2.1%	-1.7%	-1.5%	-1.1%	-0.9%

a/ Dates refer to Indian fiscal years. Thus, 1990 refers to the fiscal year 1990/91, running from April 1990 through March 1991.

b/ Refers to Total Public Sector, which includes the Central Government, the State Governments and Non-Financial Public Enterprises.

c/ Refers to the Savings-Investment Balance of the Total Public Sector (National Accounts classification).

BALANCE OF PAYMENTS a/
(US$ millions of Current Prices)

	Actual					Prelim.	Projected						
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1997	1999
A. Exports of Goods & NFS	12771	13877	16215	18218	20913	22685	22900	25847	29684	34264	39360	51171	65319
1. Merchandise (FOB)	9461	10460	12644	14262	16850	18485	18693	21320	24698	28747	33275	43753	56368
2. Non-factor Services	3310	3217	3571	3956	4063	4200	4206	4527	4987	5517	6085	7418	8950
B. Imports of Goods & NFS	19419	19950	22839	26584	27752	30591	27550	29424	32830	36472	41073	52371	66165
1. Merchandise (FOB)	17295	17728	19812	23339	24414	27214	24231	25879	28909	32150	36253	46381	58771
2. Non-factor Services	2124	2222	3027	3225	3338	3377	3319	3545	3921	4322	4820	5990	7395
C. Resource Balance	-6648	-6273	-6624	-8346	-6839	-7906	-4650	-3577	-3146	-2208	-1713	-1200	-847
D. Net Factor Income	-1552	-2045	-2471	-2985	-3305	-3923	-3975	-4154	-4391	-4616	-4682	-4538	-4911
1. Factor Receipts	547	501	446	397	395	199	161	222	360	449	460	789	1279
2. Factor Payments	2099	2546	2917	3382	3700	4121	4136	4375	4752	5065	5142	5327	6190
E. Net Current Transfers	2207	2327	2698	2654	2256	2000	2323	2133	2238	2239	2241	2244	2247
1. Current Receipts	2219	2339	2724	2670	2271	2016	2100	2150	2255	2257	2260	2264	2269
a. Workers Remittances	2219	2339	2724	2225	2186	1947	2016	2066	2141	2143	2145	2150	2154
b. Other Current Transfers	0	0	0	445	85	69	84	84	114	114	114	114	115
2. Current Payments	12	12	26	16	15	16	16	17	17	18	19	20	22
F. Current Account Balance	-5993	-5991	-6397	-8677	-7888	-9829	-6303	-5598	-5300	-4584	-4154	-3495	-3512
G. Net Long-Term Capital Inflow	4641	5339	6360	7706	7427	5017	4938	5691	6058	6264	6284	7204	7320
1. Foreign Direct Investment	160	208	181	287	350	253	200	350	520	680	1000	1500	1500
2. Official Capital Grants	359	403	410	406	500	524	549	576	603	632	662	712	766
3. Net LT Loans	4122	4728	5769	7013	6577	4240	4188	4765	4934	4952	4601	4991	5053
a. Disbursements	5431	7017	7661	8962	8506	6720	6745	7773	8549	9133	9493	10423	11598
b. Repayments	1309	2289	1892	1949	1929	2480	2557	3008	3615	4181	4892	5432	6544
H. Total Other Items (net)	2163	1372	780	749	618	2014	200	-157	-100	-50	20	26	27
1. Net Short-Term Capital	273	168	222	253	917	219	0	-157	-100	-50	20	26	27
2. Capital Flows NEI	1416	1306	1289	355	-465	1795	0	0	0	0	0	0	0
3. Errors & omissions	474	-102	-731	141	167	0	200	0	0	0	0	0	0
I. Change in Net Reserves	-812	-720	-743	222	-157	2798	1165	64	-658	-1630	-2130	-3735	-3835
1. Net IMF Credit	-264	-648	-1082	-1210	-1008	1028	1377	680	571	-415	-1770	-200	-430
2. Other Reserve Changes (excl. Gold)	-548	-72	339	1432	851	1770	-212	-616	-1229	-1215	-360	-3535	-3405
(- indicates increase)													

a/ Dates refer to Indian fiscal years. Thus, 1990 refers to the fiscal year 1990/91, running from April 1990 through March 1991.

BALANCE OF PAYMENTS a/
(US$ millions of Current Prices)

	Actual					Prelim.	Projected						
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1997	1999
Shares of GDP (current US$)													
1. Resource Balance	-3.1%	-2.7%	-2.6%	-3.1%	-2.6%	-2.8%	-2.0%	-1.5%	-1.3%	-0.8%	-0.6%	-0.4%	-0.2%
2. Total Interest Payments	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.7%	1.8%	1.8%	1.8%	1.7%	1.5%	1.4%
3. Current Account Balance	-2.8%	-2.6%	-2.5%	-3.2%	-3.0%	-3.5%	-2.6%	-2.4%	-2.1%	-1.7%	-1.5%	-1.1%	-0.9%
4. Net LT Capital Inflow	2.2%	2.3%	2.5%	2.8%	2.8%	1.8%	2.1%	2.4%	2.4%	2.4%	2.2%	2.2%	1.9%
5. Net Credit from the IMF	-0.1%	-0.3%	-0.4%	-0.4%	-0.4%	0.4%	0.6%	0.3%	0.2%	-0.2%	-0.6%	-0.1%	-0.1%
Memorandum Item:													
GDP (mill. US$)	214032	228346	256480	272848	265720	284298	238378	236408	249656	265519	283449	328978	384202
Foreign Exchange Reserves:													
End-Year Reserves (m. US$)	6857	6730	6391	4959	4108	2338	2550	3166	4395	5610	5970	11110	18010
Reserves in Months of Imports	4.6	4.6	3.9	2.5	2.0	1.0	1.3	1.5	1.8	2.1	2.0	2.9	3.7
Exchange Rates (Rs/US$): b/													
Nominal Official Exchange Rate	12.24	12.79	12.97	14.48	16.66	17.95	24.50	27.00	28.27	29.43	30.52	32.82	35.29
Real Exchange Rate Index (1980/81=100)	94	110	115	128	133	140	175	186	190	194	198	206	214

a/ Dates refer to Indian fiscal years. Thus, 1990 refers to the fiscal year 1990/91, running from April 1990 through March 1991.

b/ Refers to period average.

DEBT SERVICE ASSUMPTIONS a/

	Actual				Prelim.	Projected						
	1980	1984	1988	1989	1990	1991	1992	1993	1994	1995	1997	1999
Principal Repayments												
Multilateral	86	132	397	462	509	692	938	1036	1226	1407	1622	1898
of which: IBRD	71	87	303	352	495	547	657	818	957	1077	1230	1329
Bilateral	499	412	571	567	598	717	811	805	867	971	1095	1191
IMF Repurchases	9	134	1210	1008	726	454	320	129	865	1770	200	430
Private	171	546	981	900	1273	1148	1359	1774	2087	2514	2715	3456
Total	765	1224	3159	2937	3206	3011	3328	3744	5046	6662	5632	6974
Interest Payments												
Multilateral	101	239	581	640	736	914	1027	1138	1264	1400	1518	1560
of which: IBRD	66	169	474	529	615	709	771	851	951	1079	1161	1182
Bilateral	245	199	318	421	411	419	465	490	510	534	593	680
IMF Repurchases	4	374	233	184	134	205	282	376	470	387	193	138
Private	292	920	2016	2260	2654	2404	2394	2518	2571	2548	2694	3056
Total	642	1732	3148	3505	3937	3942	4168	4524	4815	4868	4999	5434
Key Ratios												
Interest/Exp. G.& Serv.	4.2%	10.7%	15.1%	14.9%	15.9%	15.7%	14.8%	14.1%	13.1%	11.6%	9.2%	7.9%
Debt/Exp. G.& Serv.	136.0%	209.9%	280.8%	274.0%	282.4%	298.1%	288.2%	269.8%	248.1%	224.6%	188.6%	161.8%
Net Disbursement/Interest	432.7%	219.3%	192.4%	185.0%	139.4%	141.2%	126.9%	119.5%	93.2%	58.6%	96.4%	85.6%
Net Transfers/GDP	1.2%	1.1%	1.1%	1.1%	0.5%	0.7%	0.5%	0.4%	-0.1%	-0.7%	-0.1%	-0.2%

a/ Dates refer to Indian fiscal years. Thus, 1990 refers to the fiscal year 1990/91, running from April 1990 through March 1991.

ANNEX II

NEW DELHI, INDIA

November 11, 1991

LETTER OF DEVELOPMENT POLICY

Dear Mr. Preston,

1. The Government of India has adopted a package of major policy reforms aimed at macro economic stabilisation and restoration of the growth momentum to the economy. These initiatives are being implemented at a time when the Indian economy faces a serious Balance of Payments crisis. The strategy consists of measures aimed at achieving a sharp reduction in the fiscal deficit, combined with reforms in the key areas of trade policy, industrial policy, the public sector and the financial sector. The effectiveness of these measures in bringing about the desired structural adjustment in the economy while maintaining the momentum of growth depends critically upon the availability of adequate external finance. Accordingly, we are requesting a Structural Adjustment Loan/Credit from the World Bank. We believe that the policies outlined by us are adequate and sufficient to meet the objectives of the programme.

2. It is also our intention to seek IBRD/IDA support for our medium term reforms strategy through a series of Structural/Sectoral Adjustment loans/credits including fast disbursing support for establishing and strengthening the social safety net to mitigate the social burden of the transition process.

3. We have no doubt that with continued support from multilateral financing institutions, particularly the Bank and the Fund, and given the resilience of our economy as well as the support of the international community as a whole, witnessed at a recent meeting of the Aid India Consortium, India would be able to overcome the present economic difficulties and return to a path of sustained high growth. I greatly look forward to your continued support in our endeavour to achieve these objectives.

4. The medium term reform programme of Government is described in the attachment to this letter.

Kind regards,

Yours sincerely,

Finance Minister

Mr. L.T. Preston
President
The World Bank
Washington D.C.

Program for Structural Reform

1. The Government of India has recently initiated a comprehensive program of macroeconomic stabilization and structural adjustment. In support of the initial phase of its program, the Government requests the assistance of the World Bank in the form of a Structural Adjustment Loan/Credit (SAL/SAC). The program aims at restoring macroeconomic balance and economic growth, regaining external creditworthiness and preparing the Indian economy to respond effectively to emerging global challenges and opportunities. It is inspired by the vision that India can grow faster as part of the world economy. However the program is also being formulated at a time when the Indian economy faces a balance of payments crisis of unprecedented severity.

2. The new Government which assumed office in late June, 1991 inherited a situation with foreign exchange reserves at an all time low, drying up of normal external commercial borrowing, and a continuing withdrawal of foreign currency deposits by non-resident Indians (NRIs). Meanwhile severe import compression introduced earlier had begun to constrict industrial production and exports. The government moved rapidly to formulate a strategy for restoring viability in the external payments situation. The strategy relied upon restoration of macroeconomic stability through strict control over the fiscal deficit, tightening of monetary policy, an adjustment in the exchange rate, and the announcement of major structural reforms in industrial and trade policies. These measures are bold and challenging. Through strenuous efforts, India has successfully met all its international payment obligations during a very difficult period.

3. Committed to the pursuit of equity and social justice, and blessed with a political system with a proven capability to provide both governance and freedom, the Government's key economic objective is to restore sustained high growth which is essential to alleviate poverty and raise the standard of living. In pursuit of these objectives, the Government's reform strategy, seen over the course of the next five years, aims at achieving: (i) a liberalized trade regime characterized by tariff rates comparable to other industrializing developing countries and the absence of discretionary import licensing (with the exception of a small negative list); (ii) an exchange rate system which is free of allocative restrictions for trade; (iii) a financial system operating in a competitive market environment and regulated by sound prudential norms and standards; (iv) an efficient and dynamic industrial sector subject only to regulations relating to environmental security, strategic concerns, industrial safety, and unfair trading and monopolistic practices; and (v) an autonomous, competitive, and streamlined public enterprise sector geared to the provision of essential infrastructure goods and services, the development of key natural resources and areas of strategic concern. These objectives can be realized if sufficient external financing is secured to enable the adjustment process to take place in an environment in which the momentum of growth is sustained.

4. Effective management of structural change in india, as in any other democratic society, requires not only the formulation of a consistent package of economic reforms, but also a broad social and political consensus. Building consensus involves articulation of the need for reform, and securing the cooperation and support of political parties as well as various interest groups on the ends and means of reform. It also involves taking every step necessary to ensure that the burden of adjustment is fairly distributed and that the very poor are protected. As a first step in this direction, the Government has established a National Renewal Fund (NRF) to provide a social safety net in order to ensure that the cost of adjustment does not fall on the workers. The NRF will provide ameliorative measures for workers affected in the course of structural changes, as well as financing their retraining, so that they will remain active productive partners in the process of adjustment.

5. Due to the initiatives taken over the past four decades, India now has a prosperous agriculture and a strong and diversified industrial base; it has capital markets and institutions which are on par with those of many advanced industrial nations; it has a large well-trained and skilled labor force; and is endowed with a vigorous and growing private sector. Over the course of the decades since Independence, our country has successfully dealt with many difficult situations arising out of droughts, wars and international oil shocks. The economy's performance was particularly impressive in the decade of the 1980s. Stimulated by the liberalization initiatives of Shri Rajiv Gandhi's administration, GDP growth accelerated to 5.6% p.a., compared to an average of 3.5% during the previous three decades. This resulted in an increase in real per capita income by 40% in the 1980s, compared to less than 30% over the previous two decades combined. Despite the many disruptions of 1990/91, overall GDP grew by 5%, and manufacturing by 8.0%.

6. It is on the strength of these achievements, and with a firm commitment to removing the constraints on growth originating from the present macroeconomic imbalances and long-standing structural impediments, that the Government has initiated a comprehensive program of macroeconomic stabilization and structural reform. The thrust of the program would initially be on easing the country's extremely tight external payments situation and reducing inflation. The emergency measures taken in April-July 1991, including a severe compression of imports through tight credit policy, adjustment in the foreign exchange value of the rupee, and mobilizing part of the country's gold stocks, have had some success in meeting these initial objectives. Furthermore, to stabilize expectations and to consolidate the gains from the recent exchange rate adjustment, the Government intends to pursue a stable exchange rate policy geared to maintain the rupee constant in nominal terms and to rely on fiscal adjustment accompanied by a tight monetary policy to contain inflation.

7. There are long-term causes underlying the current macroeconomic imbalances, some of which are structural in nature. These include the low productivity of investment, in particular the poor rates of return on past investments. Moreover, the excessive and often indiscriminate protection provided to industry has not only worked to the disadvantage of the rural economy, and accentuated disparities in income and wealth, but has also weakened the incentives to develop

a vibrant export sector. Hence, stabilization by itself is not enough. As the traditional demand impulses originating from fiscal policy will remain constrained in the next two to three years, the main impetus for sustainable economic growth has to originate with efficiency and productivity growth brought about through the expansion of investment and exports. Underpinning such a path of growth must be a consistent and comprehensive structural reform strategy designed to promote exports, to improve the relationship between the return on investment and the cost of capital, and to increase the degree of competition between firms in the domestic and external markets so that there are adequate incentives for upgrading of technology, improving efficiency and reducing costs. The key features of such as strategy are described below.

Restoring Macroeconomic Stability

8. The macroeconomic objectives of the Government center on the restoration of internal and external balance consistent with sustained economic growth. There is one basic direction of economic policy required to achieve these objectives. A substantial change in the composition of aggregate demand and supply must be engineered. Public sector consumption needs to be reduced in favor of higher domestic saving, while investment and net exports need to grow in relation to GDP. Fiscal consolidation, particularly measures to increase public sector saving, is a key requirement for this adjustment. These measures must be supported by reform measures aimed at removing structural rigidities in the economy arising from the regulatory system, which needs to be revamped in light of the new strengths and capabilities of the economy. Thus, measures to restore macroeconomic stability are being supported by structural reforms in the areas of investment, trade, taxation, financial markets, and public enterprises.

9. The key macroeconomic targets of the Government are (i) a rapid recovery of GDP growth from about 3.5% in 1991/92 to about 6% by the mid-1990s; (ii) an inflation rate of about 9% - 10% (as measured by changes in the GDP deflator) in 1991/92, falling to 7.5% in 1992/93, and to 6% by 1995/96; and (iii) an easing of the present critical payments situation and a rebuilding of foreign exchange reserves from the low level of US$ 2.1 billion as of November 1, 1991 to US$ 2.3-2.5 billion (about 1 month's import cover) by the end of 1991/92. Over the next few years, foreign exchange reserves would be build up to about 2 - 3 months' worth of imports. The external current account deficit is expected to decline from about 3.5% of GDP in 1990/91 to about 2.7% of GDP in 1991/92, falling gradually to about 1.5% of GDP by 1995/96 as export growth strengthens under the influence of improved competitiveness and a recovery of demand in world markets.[1/]

10. The macroeconomic policy framework within which these targets are to be achieved stresses the role of fiscal adjustment buttressed by appropriate monetary policies, especially in the near term. It is only such a prudent

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[1/] These targets refer to the IBRD definition of the external current account.

management of macroeconomic polity that would enable us to curb the exponential growth in internal and external debt, and limit the burden of debt servicing for the Government and the country to manageable levels. Moreover, this framework will place a new emphasis on the role of market institutions and incentives in the management of economic policy. The progress already achieved in introducing greater flexibility and autonomy in the determination of interest rates will be extremely important in this regard, as will the substitution of quantitative restrictions applying to intermediate and capital goods imports by a marketable import entitlement (Eximscrip).

11. Fiscal Policy: Our medium term objective is to reduce substantially the Central Government fiscal deficit within the broader context of an adjustment of the overall public sector deficit. The fiscal deficit target of the Union Government budget introduced on July 24, 1991 is 6.5% of GDP -- a reduction of about two and a half percentage points of GDP from the estimated 1990/91 outcome. Since interest payments are projected to rise from 4.3% of GDP to 4.7% in 1991/92, achieving this deficit reduction requires an even bigger adjustment in the primary deficit, from 4.8% of GDP to 1.8%. In keeping with the targeted path of overall public sector adjustment the central Government deficit is targeted to fall to 5% of GDP in 1992/93, with further improvements thereafter. Reducing the overall public sector deficit will require increased financial discipline by the State Governments as well, and the Central Government will encourage the State Governments to take steps to improve their fiscal performance and to streamline the working of their enterprises. Our overall strategy for the central public enterprises is outlined in paragraphs 35-40. As a result of these efforts to improve efficiency and profitability, we expect the internal resource generation of the central public enterprises to improve significantly beginning in 1991/92.

12. The fiscal adjustment outlined in the 1991/92 budget provides for a rough balance between expenditure and revenue measures. Total expenditures and net lending are targeted to decline from 20.1% of GDP to 19.1% thanks to cuts equivalent to 1.2% of GDP in non-interest current expenditures, notably fertilizer and export subsidies, transfers to central public enterprises, and a moderation in defence spending. On the revenue side, Central Government revenue and grants are projected to rise by one percentage point to 12.6% of GDP. Average petroleum product prices were raised by 7% (on top of increases of 24% in October 1990 and 11% in last year's budget) to offset the effect of the recent exchange rate adjustment on the budget. Corporation tax was also increased, depreciation allowances were lowered, some tariffs were lowered, and plans to transfer assets of some public enterprises to financial institutions (expected to yield proceeds equal to about 0.4% of GDP this year) were confirmed.

13. The targeted reduction of the fiscal deficit is central to the success of the overall program. The main strengths of the new 1991/92 budget are its primary deficit reduction target, the balance between current expenditure cuts and revenue measures, and the relative protection given to investment and social development outlays. However, given the very short time the new Government had for preparing the budget (only eight months remained in the fiscal year at the time of budget presentation), there are, naturally, a number of areas which will

require follow up. The Government intends to take additional measures as necessary, on both the revenue and expenditure sides, to ensure that the targeted reduction of the Central Government fiscal deficit is achieved.

14. The Government realizes the necessity of strengthening budgetary control mechanisms and setting in place a fiscal framework that would be supportive of the structural reforms being introduced. Proposals for a comprehensive reform of the tax system are being formulated by a high level Committee of experts. The terms of reference of the Committee focus on the need for specific recommendations that will lead to (i) an improvement in the elasticity of tax revenues, in part through the identification of new areas for taxation, and an increase in the share of direct taxes as a proportion of total tax revenues and of GDP; (ii) a more equitable and broad-based system, particularly with regard to commodity taxation and personal taxation; (iii) the removal of anomalies that distort economic incentives, including a simplification and rationalization of customs tariffs with a view to reducing the multiplicity and dispersion of rates and the elimination of exemptions, as well as a reduction in the average level of tariffs; and, finally (iv) improved compliance of direct taxes and strengthened enforcement. The initial recommendations of this Committee will be introduced in the 1992/93 Union Government budget.

15. The Government's efforts at fiscal consolidation would include a major thrust for a more efficient expenditure control system. A thorough review of the existing system would be undertaken to remove existing deficiencies and to significantly strengthen its effectiveness. Particular scrutiny would be given to transfers and loans to public enterprises. There is also need for further rationalization and reduction of subsidies, particularly in light of the desirability of moving to a more objective system of administered prices that takes into account world market developments and domestic supply conditions.

16. Exchange Rate Policy: The adjustment in the exchange rate of the rupee by 23% (in terms of rupees per dollar) in early July 1991 provides for a significant real depreciation which will improve export incentives and international competitiveness. The exchange rate adjustment is also expected to check speculation, as well as making for a more orderly compression of imports. The Government intends to keep the nominal effective exchange rate stable by relying on appropriate fiscal and monetary policies to maintain competitiveness and ensure the balance of payments objectives.

17. Monetary Policy: There has already been a significant tightening of credit and monetary policies through higher interest rates and higher cash reserve requirements. Consistent with our foreign exchange reserve target and the anticipated slowdown in GDP growth, broad money expansion is targeted to decline to a rate of 13% in 1991/92, with a further deceleration in 1992/93. In the context of a rapidly declining recourse on financial savings by the Government, this should permit a steady increase in the volume of domestic credit to the private sector, for investment. However, the Government is committed to a further tightening of monetary policy if necessary to defend the external position. Monetary policy affects the pace of aggregate supply as well as aggregate demand. This dictates that monetary policy should be pursued flexibly

and prudently to avoid the risk of weakening the economy's productive capacity, including its capacity to export. In its application, the Government would judiciously balance the stance of monetary policy to control inflation with its possible adverse impacts on the supply side.

Moving Toward a More Open Trade Regime

18. The Government recognizes that trade reform is an essential element in securing supply responses to facilitate the overall restructuring of the economy and to restore external payments viability. Rapid export growth is crucial for regaining access to international capital markets, and providing for external debt service. The thrust of trade reform is therefore to aim at a quick revival of the momentum of exports and to expose domestic industry to greater external competition.

19. There are five key medium-term objectives in the Government's trade policy agenda. First, the broadening and simplification of export incentive measures and the removal of restrictions on exports; second, the elimination of Quantitative Restrictions (QRs) on all imports; third, substantial reductions in tariff rates; fourth, the decanalization of exports and imports with the exception of a few items; and finally, moving to a foreign exchange system which is free of allocative restrictions for trade.

20. In support of these objectives, the Government announced a package of trade policy reforms on July 4 and August 13, 1991. Several changes in trade policy were introduced aimed at strengthening export incentives and eliminating a substantial proportion of import licensing requirements. Essential imports of sensitive items such as oil and petroleum products and fertilizers are fully protected, but other imports of raw materials and components were linked to exports through an enlargement and restructuring of the replenishment licensing (REP) system. REP licenses have been replaced by a new instrument named Eximscrip which is issued to exporters at higher rates and is freely tradeable. Under this new regime the range of items which can be imported without discretionary licensing has been substantially widened. The system of cash compensatory support (CCS) for exports was abolished consequent on the downward adjustment of the exchange rate of the rupee in July 1991. A high level committee has been appointed to formulate proposals for reform of the tariff system in the context of a broader tax reform. To promote exports, the system of Advance Licensing permitting duty free import of raw materials, components and consumables at international prices was simplified, made more automatic and the issue of licenses under the scheme was made time-bound. The Export Processing Zones Scheme and 100% EOUs scheme which create duty free enclaves were simplified and made more attractive, especially in the matter of allowing exports of up to 25% of production to the domestic tariff area at preferential rates of custom duty (50% of the normal rate).

21. In addition to the trade reform measures already taken, further actions are planned by the Government along the following lines:

(i) The Government recognizes that the temporary restrictions on imports which had to be imposed earlier in the year by the Reserve Bank of India as part of its effort to manage the acute balance of payments situation need to be relaxed. Recently, the RBI has eliminated the cash margins on certain export-related imports, provided all exporters with a margin free window for imports of items on OGL of up to 40% of the previous year's exports (up to Rs. 10 crores), and has also relaxed prior approval requirements for exporters. The remaining restrictions that affect exporters will be eliminated as a first priority, to be followed as soon as possible by the elimination of such restrictions that affect all other importers.

(ii) The Eximscrip scheme is intended to act as a transitional mechanism for the equilibration of the trade account. It is the intention of the Government to integrate the Eximscrip scheme with OGL as soon as feasible and, in any event, no later than mid 1995.

(iii) Since the promotion of exports is one of the key objectives in the Government's trade strategy, the Government will review the export licensing and canalization systems with a view to the removal of these impediments to exports. The Government will remove export licensing and minimum export prices except for a small negative list, and decanalize and allow private participation in the export of major agricultural and mineral products. The Government has already decontrolled and decanalized several export items. It will establish modalities and a timetable for the decontrol and decanalization of the remaining items with a view to complete liberalization by the end of 1995.

(iv) At present, a number of items are exclusively or principally imported by specified public sector agencies (canalizing agencies). The Government recognizes that there is a strong case for decanalizing imports. The role of state monopoly agencies in foreign trade will be substantially reduced and greater private sector participation will be permitted. Firstly, all remaining canalized imports will be decanalized, except for a small negative list of "sensitive" products and products canalized for health and security reasons, by April 1992. Secondly, with the aim of removing dual pricing for canalized imports, the amount of official foreign exchange allocated to canalizing agencies will be progressively reduced and eventually phased out.

(v) As part of the Government's strategy to allow greater flexibility in the import regime, the "Actual User" requirement, which has already been relaxed as a result of the Eximscrip scheme, will be abolished by April 1992.

(vi) It is the policy of the Government to move to a situation where imports, including ultimately final goods, are regulated through appropriate tariffs. Therefore, import bans, discretionary import licensing, and other barriers are to be eliminated and replaced by a tariff-based protection system. In support of this objective, and as a first step, such of the intermediate items in the restricted list of imports, the production of which is at least one third of the total production of all intermediate items in the list, would be importable against the Eximscrip or OGL by November 1991. The Government proposes to rationalize the list further by shifting more such intermediate items

for about two-thirds of the total production covered by the restricted list for import against the Eximscrip or OGL at the time of issue of the Import Policy for 1992/93 (April 1992). Capital goods corresponding to 50% of domestic production covered by the restricted list (Quantitative Restrictions) will also be made freely importable under either the Eximscrip or OGL by May 1992. In addition, the import of all unlisted capital goods will be permitted with the use of Eximscrips by April 1992.

(vii) The Government recognizes the need to introduce greater transparency into the trade regime. To that end, a computerized list corresponding to customs tariff HS classification giving the import control status of each product will be released by October 1991. This will reduce the scope for discretionary decision making at lower levels and introduce greater transparency in import policy. In addition, a negative list principle will be established under which all products not on the restricted lists, the canalized list or importable under OGL will be importable with the use of Eximscrip by May 1992.

(viii) Despite the reduction in peak ad-valorem tariff rates in the 1991/92 budget to a maximum of 150 percent, current tariff levels are very high in comparison with other industrializing developing countries and this raises domestic production costs and renders many Indian industries non-competitive by international standards. However, customs revenues account for about 50% of total current government revenue in 1991/92. The objective of tariff reduction therefore has to be achieved hand in hand with the broader objective of fiscal policy reform which includes mobilization of an adequate amount of resources. To that end, the Government has set up a committee on Tax Reform which will undertake a comprehensive review of customs tariffs. With a view towards enhancing India's international competitiveness, the Committee has been mandated to recommend ways and means for the following. First, the average level of tariffs would be reduced substantially to internationally comparable levels. Second, the maximum level of tariffs will be progressively reduced in a sequence of yearly adjustments over the next five years. Third, the structure of tariff rates would be simplified with a view to substantially reducing their variability and the incidence of exemptions and partial exemptions. Fourth, the use of specific tariffs will be minimized. The Committee has been asked to make recommendations as to the phasing of the introduction of the new customs tariffs within a relatively short period of time of no longer than five years. It will also recommend alternative revenue sources to compensate for any reduction in total government revenues which is likely to follow from the tariff reform. The Government proposes to take action on the basis of the Committee's recommendations in the 1992/93 budget.

Industrial Policy

22. The rapid expansion of the industrial sector in the 1980s was induced by reforms undertaken in trade and industrial policies during the early and mid 1980s. The acceleration of the export of manufactured goods during the last 4 years also bears testimony to the responsiveness of Indian industry to policy

changes. A program of further policy reform is needed to consolidate the gains already achieved and to provide further impetus to industrial growth.

23. The Government of India placed a Statement on Industrial Policy before Parliament on July 24, 1991. This statement marked a major step forward in the Government's ongoing program of industrial regulatory reform. It announced major initiatives including comprehensive delicensing, abolition of pre-entry controls related to the MRTP Act, and introduction of automaticity in approvals of foreign technology agreements and foreign investments, among others. These measures go a long way toward deregulating entry, which is necessary to provide the competitive stimulus for accelerated industrial growth during the 1990s. The changes in policies concerning foreign technology and foreign investment will enable Indian industry to forge much more dynamic relationships with foreign investors and suppliers of technology than has been possible in the past.

24. The new policy has eliminated investment licensing requirements for all new, expansion, and diversification projects except in 18 industries (estimated to account for about 20% of current manufacturing output). Furthermore, the MRTP Act has been amended to remove all requirements for pre-entry approval of large or dominant companies. Thus, except for certain industries related to security and strategic concerns, social aspects, concerns related to safety, overriding environmental issues, and manufacture of chemicals involving hazardous processes, pre-entry regulations governing industrial investment have been removed. In view of serious concerns related to congestion and environmental deterioration, projects within 25 km of the periphery of large cities (23 cities with more than 1 million people) will still require a license except in prior designated industrial areas. Because of the balance of payments constraint, investors will still need an import license to import capital goods for projects in which the foreign exchange content is over 25% of total investment or Rs. 20 million, unless foreign exchange supply is ensured through foreign equity capital. The mandatory convertibility clause, under which financial institutions had the right to convert a proportion (up to 20%) of their loans into equity, has been abolished. This will have positive implications for both borrowing companies and the financial institutions. Phased Manufacturing Programs, which had involved the enforcement of progressively increasing local content requirements on a case by case administered basis, have been abolished for new projects.

25. Foreign investment and foreign technology agreements in India have hitherto had to obtain specific prior approval from the Government. In the case of foreign investment, automatic approval is now available for proposals with a foreign equity share of up to 51% in high priority industries. In view of the current balance of payment constraint, this facility is available only to firms that are able to finance their capital equipment imports with the foreign equity contribution. Such firms are also required to balance dividend repatriation with export earnings for a period of 7 years from the commencement of production. This condition has been imposed to provide a signal for foreign investment to be competitive internationally, particularly in the light of expected trade and tariff reforms which will reduce protection within the next 3-5 years. The condition is not likely to impinge on the dividend policy of most companies,

since a normal dividend repatriation volume would seldom be higher than 1% to 2% of sales.

26. Foreign technology agreements where royalties are limited to 5% of domestic sales and 8% of export sales, along with lumpsum payments of up to Rs. 10 million, are now automatically approved. In high-priority industries, free foreign exchange would be available for the payments, whereas in other industries these payments would have to be covered by Eximscrip.

27. Recognizing the need to strengthen the incentives for foreign direct investment, the Government has set up the Foreign Investment Promotion Board to consider and approve substantial foreign investment proposals. These proposals would be considered in totality, free from pre-determined parameters and procedures. In order to facilitate the financing of large investment requirements, the all-equity requirement for capital goods imports for projects receiving automatic approvals needs to be modified as and when the external payments situation permits. The Government will also endeavor to raise the quantitative limits on capital goods imports for delicensed investment projects as the external payment situation improves. The Government intends to remove the provision linking dividend repayment to export earnings for foreign direct investment projects eligible for automatic clearance, as soon as the external payments situation permits.

28. The Government has been following a policy of releasing industry from price and distribution controls during the 1980s. Such controls were removed for paper, cement and aluminum, among other products. The Government intends to continue with similar decontrol in other industries (including steel).

29. The major industrial regulatory reforms already implemented by the Government constitute a substantial structural reform of Indian industrial policy. The Government recognizes that the major restructuring of the Indian economy implied by its agenda of macroeconomic adjustment and structural reform will depend on the success of these reforms. Large numbers of sick firms constitute a drain on the Government budget; their unpaid outstanding loan obligations weaken the financial system; and in many cases such firms have closed their doors, leaving labor unemployed without compensation and leaving creditors unreimbursed. Further reforms are needed to formulate a socially acceptable policy to facilitate the restructuring of industrial units in the face of changing technology and the need to modernize. This will prevent sickness in the future. For the restructuring of existing sick and loss making companies in both the public and private sectors, the Government will establish an inter-ministerial Working Group by November 1991, which will review existing provisions of the various laws governing labor relations, state and local governments' role in industrial restructuring, regulations governing transfer of land, procedures for liquidation under the Companies Act, and other relevant aspects. Based on its review, this Working Group will recommend a program of reforms. These reforms will be undertaken along with the efforts to establish adequate safeguards for the workers, provision of appropriate compensation, and a program for re-deployment and retraining for displaced workers resulting from the winding up of industrial units.

30. The Government is well aware that a prerequisite for a successful policy for industrial restructuring is a "safety net" or social insurance scheme to provide support for displaced workers in the organized sector, through the National Renewal Fund, to be set up by December 1991. It is our intention to seek the Bank's support for the establishment of this facility.

Enhancing the Efficiency of Financial Intermediation

31. Since independence India has witnessed the growth of a well diversified and comprehensive financial infrastructure. In terms of financial sector size the financial system ranks in the top quarter among developing countries. The capital market is broad and active and in recent years has found the public increasingly receptive. In 1990/91 non-government companies were able to raise 25.27 billion Rupees through new issuance of equity and debentures as compared to 11.04 billion Rupees in 1985/86. The Government's ownership of the financial and banking institutions is dominant. This has enabled it to achieve multiple objectives including mobilization of resources, integration of the rural population into the financial mainstream, enhancement of availability of long-term loans to all levels of industry and agriculture and increased access to credit to small industrialists, farmers and weaker sections of society.

32. However, there are weaknesses and imbalances. The Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) levels are high, which implies low returns for commercial banks on their funds; it also reduces the resources available to and raises the costs for non-priority borrowers.

33. To move closer to a market-based operation of the financial institutions, interest rates on term loans have been decontrolled (subject to a floor of 15%), while all regulated deposit interest rates were increased by one percentage point. Interest rates on commercial bank loans had been decontrolled earlier (with a floor of 18.5% set for non-priority sector loans, now raised to 20%). Measures have also been taken to strengthen capital markets: interest rates for debentures (except for tax-free bonds for the public sector) have been freed, mutual funds are being opened up to the private sector, and full statutory powers are to be given to an independent agency to regulate security markets. Finally, a high level committee (Narasimham Committee) has been established to review the structure and overall functioning of the financial system and to advise the Government on reforms by end-November 1991.

34. In line with the recommendations of the Narasimham Committee, further reforms of the financial sector will be formulated and implemented. The aim would be to increase the efficiency of financial intermediation through a well sequenced program for: (i) deregulation of the interest rate structure; (ii) enhancement in the flexibility and autonomy of financial institutions and banks to adjust resource flows to emerging needs and priorities; (iii) strengthening the prevailing prudential regulatory framework applying particularly to capital adequacy norms and assessment of bad and doubtful debt in banks' portfolios; and (iv) enabling expansion of private and cooperative sector banks (including

foreign banks) in the banking sector. The measures required to meet these objectives would principally involve a phased reduction of involuntary financing of budget targeting of priority lending scheme towards the most deserving groups, and eventual elimination of the subsidies involved, formulation of prudential norms and standards to guide efforts in recapitalization of the banking sector, and full decontrol of deposit rates. It is also recognized that improved prudential standards are important for the healthy development of India's already sizable and rapidly growing securities markets.

Public Enterprise Reform

35. India's severely constrained budgetary circumstances create both the need and opportunity for rationalizing the scope of public sector activity, and for placing greater reliance on the private sector for resource mobilization and investment. Public enterprises have absorbed large amounts of budgetary support for their expansion or operations, but in many cases they have failed to generate adequate returns on the investments of public money and contributed significantly to the public sector saving gap and fiscal deficit. Many public enterprises fail to cover the cost of capital they employ and incur cash losses. Central Government public enterprises as a whole impose a burden on the exchequer. Since 1985/86, annual budgetary support, net of royalties, taxes, interest and dividend payments, to Central Government public enterprises (CPEs) has averaged more than Rs. 30 billion.

36. Public enterprises provide many of the basic and critical inputs in India, and it is a matter of serious concern that for a variety of reasons there has been inadequate attention to improving their efficiency. As a result, many basic industrial inputs have become high-priced, contributing significantly to the high cost structure of the economy. The Government recognizes that actions taken in the area of public enterprise reform will be central to the near term growth performance of the economy, as well as to its medium term transformation. To support rationalization of the scope of the public sector, the Government does not propose to create new central public enterprises except in industries reserved for the public sector and essential infrastructure, exploitation of oil and mineral resources and strategic-related activities. The Government also reaffirms its policy against nationalization or takeover of sick private firms, which has already been in effect for the past five years.

37. There are currently 244 autonomous CPEs and 845 State-level public enterprises (SPEs) covering multiple areas of activity (from mining and manufacturing to trading and welfare services). In 1989/90, there were 20 highly profitable units in steel, oil, power, minerals and metals, coal and lignite, heavy engineering, petrochemicals, transportation services, financial services and telecommunication services; 74 units providing various services with modest overall profitability; 11 units still under construction; 4 units in a no-profit no-loss situation; and 135 units, concentrated in chemicals and pharmaceuticals, engineering, consumer goods, textiles and various service sub-sectors, with an aggregate negative net profit. Forty-seven of this latter group have in fact been incurring chronic cash losses for a number of years. Specifically, these

47 CPE units can be characterized as sick, with a negative net worth totalling Rs. 46 billion, a total labor force of 310,000 persons, and annual cash losses of Rs. 12 billion which are covered by the budget. The units that fall under special provision of the Sick Industrial Companies Act (1985) will be referred to the Board for Industrial and Finance Reconstruction (BIFR) for restructuring or winding up. The budgetary stringency faced by the Government underlines the importance of quickly formulating provisions for restructuring and closing sick and unviable public enterprises, and opening up selected units and sectors to private capital. In this context, the Government will formulate an action program to initiate restructuring and closure procedures for units in the public sector that are patently unviable by May 1992. In the context of public enterprise restructuring, it will be important to assess the social costs associated with the closure of sick units and to develop options and measures for compensation of retrenched labor and alleviation of the social costs.

38. In the context of improving the incentives and policy framework in which CPEs remaining under the Government's control operate, and in order to achieve better financial performance and enhanced economic efficiency, regulatory and protection policies are being reviewed. The Government has already taken measures in the following areas bearing on the performance of public enterprises: industrial reservations; competition and regulatory policies; and pricing and procurement policies.

39. Enterprises in areas where continued public sector involvement is judged appropriate will be provided a much greater degree of managerial autonomy and made to face a much harder budget constraint through the progressive reduction of budgetary transfers and loans. Specifically, the Government intends to establish a schedule of quantitative targets for the elimination of all budgetary transfers and loans to CPEs beginning from 1992/93, and complete elimination of government loans and equity to non-infrastructural PEs over three years. In the same vein, the existing system of monitoring enterprises through Memoranda of Understanding (MOU) will be strengthened, to ensure greater autonomy to management, with their primary accountability toward profitability and the rate of return on capital.

40. Sales of selected firms or partial divestment in specific sectors is increasingly being pursued. The 1991/92 budget confirmed the Government's decision to sell partial equity interest (up to 20%) in central public enterprises, totalling Rs. 25 billion, through mutual funds. The objective is for the mutual funds to seek a listing for the shares on the stock market and to dispose of them gradually so as to finally ensure wider holding of shares. Over the course of the next three years, the Government intends to raise a total of up to Rs. 75 billion from partial divestment. A more comprehensive program of divestment of public holdings is under formulation, with the objective of increasing the scale of divestiture from 20% to 49% of equity through a mix of sales of shares to mutual funds, stock market floatation, labor buy-outs and joint ventures with private investors.

Strengthening Social Sectors and Safety Nets

41. The Government recognizes that the adjustment program entails significant transitional costs. these costs, which include potential losses of output, employment and consumption due to the deflationary impact of fiscal consolidation, and frictions in the restructuring process, must be equitably borne by all sections of the society. However, a large proportion of India's population continue to be subject to malnutrition and ill-health, and do not have the educational skills and access to means of production that would enable them to participate fully and benefit from the growth process. For this group, government expenditure restraint as well as the restructuring of the economy could prove particularly costly, and we are committed to minimizing their share of the burden of adjustment. Special efforts will be made to ensure adequate access of India's truly disadvantaged to social services. In the context of the 1991/92 budget, the Government has provided for higher outlays on elementary education, rural drinking water supply, assistance to small and marginal farmers, programs for women and children, programs for the welfare of scheduled castes and scheduled tribes, and other weaker sections of society, as well as for increased spending on infrastructure and employment-creation projects in the rural areas. Further steps will be taken to refocus social expenditures, particularly in health and education, towards the poor. Additionally, cost-effective compensatory programs, particularly in the areas of nutrition and employment, will be strengthened and broadened.

42. Given the Government's commitment to making the objective of poverty alleviation an integral part of the adjustment process, it intends to formulate and adopt a program of specific measures aimed at strengthening existing social safety nets and mitigating the inevitable costs of adjustment. As an initial step in this direction, the 1991/92 Budget provided for the establishment of a national social security fund (the National Renewal Fund) to, inter alia, finance unemployment insurance and redeployment/retraining for public and private sector workers. It is the Government's hope that this initiative, and others to follow, will attract the support of official donors.

INDIA: STRUCTURAL ADJUSTMENT LOAN/CREDIT

POLICY MATRIX

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
INDUSTRIAL POLICY		
Reform of industrial regulatory framework regarding firms' entry, expansion, financing and diversification		
	A.1 The Government has abolished industrial licensing for all new, expansion, and diversification projects of all sizes except in 18 designated industries and except for projects/facilities located less than 25 km from cities of over one million population.	B.1 Guidelines will be issued clarifying that industrial licensing decisions on grounds of location (A.1) will be based solely on environmental, safety, land use, congestion, urban planning, and related concerns.
	A.2 Amendments to the MRTP Act have been made via Presidential Ordinance, abolishing all pre-entry clearance requirements for large or dominant firms; the MRTP Act has been reoriented to emphasize policing of monopolistic, restrictive, and unfair trading practices.	B.2 The 25% and Rs. 20 million limits on automatic approval for capital goods imports will be raised to 50% and Rs. 100 million, respectively.
	A.3 The requirement for producers to enter into Phased Manufacturing Program (involving indigenization of the production of parts and components over time) has been eliminated in the case of new projects.	
	A.4 The mandatory convertibility clause in term loans of financial institutions (under which they had the right to convert a portion of loan value into equity) has been abolished for new projects.	
	A.5 Price and distribution controls on low-analysis fertilizers have been removed.	
Promotion of foreign direct investment		
	A.6 The Government has introduced automatic approval for projects with foreign equity investment up to 51% in high-priority industries, provided that the foreign exchange needed for imported capital goods is covered by the foreign equity infusion and that repatriation of dividends is	

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	A.7 The Government has announced that foreign technical collaborations would be freely permitted in high-priority industries up to certain limits on royalty payments, and in other industries if no free foreign exchange is required.	
Deregulation of Steel Industry		B.3 The Government will adopt a satisfactory action plan to deregulate and decontrol the steel industry, including, inter alia, removal of price and distribution control.
Reform of Exit Policy	A.8 Recognizing the need to overcome legislative, regulatory, and other obstacles to adjustment by industrial firms (rehabilitation, restructuring, and winding up where necessary), the Government has established an inter-ministerial Working Group to review the existing provisions of the various laws governing labor relations, state and local governments' role in industrial restructuring, regulations governing transfer of land, procedures for liquidation under the Companies Act, and other relevant aspects. A.9 Establishment of a National Renewal Fund to provide workers with a safety net to protect them from the adverse consequences of restructuring and technological development has been announced by the Government.	B.4 Amendments to the Sick Industrial Companies Act of 1985 (SICA) to institute more appropriate criteria for sickness, strengthen the Board for Industrial and Financial Reconstruction (BIFR), improve its functioning, and streamline and facilitate procedures under BIFR will be prepared and submitted to Parliament. B.5 The objectives, scope, structure, operations, sources and methods of funding, criteria and mechanisms for providing support to workers, nature and amounts of such support, and other details of the National Renewal Fund will be specified. This is expected by December 31, 1991. B.6 Based on the review and recommendations of the inter-ministerial Working Group (see A.8), the Government will formulate a satisfactory policy to facilitate adjustment by industrial firms and initiate steps to this end, taking into account the need for adequate safeguards for workers, programs for re-deployment and retraining, and appropriate compensation where necessary.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
TRADE POLICY		
Removal of emergency Reserve Bank restrictions on imports		
	A.1 RBI restrictions imposed initially as part of emergency measures to deal with the critical balance of payments situation have been partially relaxed, in particular for export-related imports.	B.1 It is expected that by December 31, 1991, there will be further reduction of margin requirements for export related imports and capital goods financing restrictions affecting exporters. By second tranche release remove the following RBI restrictions: margins, queuing system for L/Cs, and capital goods financing requirements.
Reduction of discretionary import licensing (QRs)		
	A.2 As part of its efforts of moving from QRs to a price-based import regime system, the Government replaced the REP scheme with a new tradeable import entitlement "Exim scrip", with broader coverage and higher retention rate.	
	A.3 In August 1991 a number of intermediate goods on the restricted list (Appendix 2B) corresponding to one-third of the domestic output of such products were made freely importable by Eximscrip or on Open General License (OGL).	B.2 Move intermediate items on the restricted list (Appendix 2B) corresponding to at least an additional one-third of the domestic production referred to in A.3 to be freely importable by Eximscrip or on OGL. However, consumer goods will continue to be restricted and will remain on Appendix 2B. Certain products will also continue to be restricted for health, environmental and security reasons.
Reduction in state monopoly on imports (decanalization)		
	A.4 The replacement of REP licenses by the Eximscrip increased the volume of certain canalized items also importable by private individuals or firms using these licenses. A number of minor items decanalized (i.e., for those items public sector import monopoly eliminated) in August 1991. Private imports allowed under OGL in some cases and in others using Eximscrip.	B.3 Implement a satisfactory program of reductions and elimination of the official foreign exchange allocated to the public sector agencies in connection with the phasing out of dual pricing of previously decanalized items. Decanalize all remaining canalized products except petroleum products, fertilizers, oilseeds, cereals, certain fatty acids and acid oils, and other acceptable products. In the case of the products for which private importers must use Eximscrip, either require the canalizing

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
		agency to also use Eximscrip from the date of decanalization or announce a satisfactory program of progressive reductions and elimination of official foreign exchange to the public sector agencies in order to phase out dual pricing.
Reduction in QRs on capital goods imports		
		B.4 Allow all unlisted capital goods to be imported with Eximscrip whether or not the Eximscrip is earned by the exports of the importing firm. Remove a substantial proportion of capital goods (corresponding to at least 50 percent of protected domestic production) from the capital goods restricted list (Appendix 1A). Production from which protection by import licensing is removed will not include capital goods the import of which remains restricted for health, environmental or security reasons.
Increased flexibility of import regime		
	A.5 Since April 1990 imports under transferable REP licenses have not been subject to "actual user" conditions. Actual user conditions also do not apply to the much larger volume of Eximscrip imports.	B.5 Abolish the "Actual User" requirement for imports.
Increased transparency in import regime		
	A.6 In October 1991 a computerized list corresponding to Customs Tariff HSC classifications giving import control status of each product was issued.	B.6 Abolish the Limited Permissible List (Appendix 3). Announce that all products not on Restricted lists, the Canalized lists, or the OGL lists are importable with the use of Eximscrip.
		B.7 Abolish the purchase preference given by the Directorate General of Supply and Disposal (DGS&D) and to domestic suppliers over the duty paid price of imports.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
Export incentives and removal of non-tariff barriers to exports		
	A.7 In August 1991 a new Advance License Scheme was introduced which broadens, simplifies and speeds up export incentives for manufactured goods.	
	A.8 GOI decanalized some exportable products on August 13, 1991 and decontrolled some others on September 4, 1991. Further decontrol measures were taken in October 1991. GOI is continuing to review export controls and export canalization, in particular existing policies towards agricultural and mineral exports.	B.8 Remove all export licensing, canalization and minimum export prices except for a satisfactory negative list.
Tariff reform		
	A.9 The Government has partially rolled back the earlier tariff increases adopted in the context of fiscal adjustment of December 1990 and the maximum ad valorem tariff (basic plus auxiliary) was lowered to 150 percent.	B.9 Completion of the customs tariff review and adoption of a satisfactory medium term plan to meet the objectives set out in A.10. A substantial initial reduction of the maximum customs tariff to be introduced in the 1992/93 budget.
	A.10 The GOI is undertaking a comprehensive review of the customs tariffs in order to recommend among other things, ways and means for: (i) substantially reducing the average level of tariffs; (ii) significantly lowering the maximum level of tariffs; (iii) simplifying the structure of tariff rates with a view to substantially reducing their variability and the incidence of exemptions and partial exemptions; (iv) minimizing the use of specific tariffs; (v) obtaining alternative revenue sources to compensate for any reduction in total government revenue which may follow from the tariff reform.	

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
FINANCIAL MARKETS AND INSTITUTIONS		
Interest rate liberalization		
	A.1 Significant progress has been achieved in introducing greater flexibility and autonomy in the determination of term lending rates. Minimum lending rates for both commercial banks and financial institutions have been increased to 20% and 15% respectively, with both institutions given the freedom to add margins, depending on borrowers' creditworthiness and market conditions.	
	A.2 Term deposit rates have been increased across the board by 1 to 2 percentage points (deposit rates, however, remain still under the administrative control of the RBI).	
Reduction in the scope of directed credit allocation schemes		
	A.3 A panel (Narasimham Committee) has been established with the mandate to review all relevant aspects of structure, organization, functions and procedures of the financial system, and make recommendations for reforms by mid-November 1991.	B.1 With the reduction of the fiscal deficit of Central Government as a proportion of GDP take measures to progressively reduce the Statutory Liquidity Ratio required to be maintained by the scheduled commercial banks, starting from April 1992.
		B.2 Based on the recommendations of the Narasimham Committee, formulate a satisfactory program of action to reduce interest subsidies in areas of directed credit, beginning in April 1992.
Capital market regulatory and institutional reform		
	A.4 Restrictions on interest rates for debentures issued by corporations in capital markets, both convertible and non-convertible, have been completely removed (exemption applies however to tax free bonds issued by the public sector).	
	A.5 The Coupon rate on Government securities has been raised by one-half of a percentage point from 11.5% to 12% (20-year bond).	

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
	A.6 Announcement has been made to grant full statutory powers to the Stock Exchange Board of India (SEBI) under the Securities Contracts (Regulation) Act and the Company Act.	B.3 Prepare and present to Parliament legislation to give SEBI statutory status in order to operate as an independent regulatory body, including power to investigate with due diligence.
	A.7 Announcement has been made to introduce a comprehensive package of reform to improve the trading mechanism of stock exchanges, including a system of national clearing and settlement and setting up a central depository trust.	B.4 Adopt a satisfactory Program of action to reform the trading mechanism of stock exchanges, including a system of national clearing and settlement and setting up a central depository trust.
Private sector participation in the mutual funds industry		
	A.8 The mutual funds industry is being opened for private sector participation. A high level Committee (Dave Committee) has been established to review the existing regulatory framework for the mutual funds industry with a view to preparing a draft legislation for regulation of mutual funds and other offshore funds, including such funds which may be a step up in the joint/ private sector, and to make recommendations on any other matters which is relevant for the orderly growth of mutual funds.	B.5 Based on the recommendation of Dave Committee, formulate and implement a satisfactory Program of action for setting up of mutual funds in the private sector.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
PUBLIC ENTERPRISES REFORM		
Rationalizing the scope and the role of the public sector		
	A.1 The Government has announced that the public sector is to concentrate on essential infrastructure, exploitation of oil and mineral resources, crucial areas where private investment is inadequate, and strategic-related activities. It was announced that the existing portfolio of public enterprises will be reviewed, with a view to focusing the public sector on strategic areas, high-tech, and essential infrastructure. The list of industries reserved for the public sector has been reduced from 18 to 8.	
Reduction in budgetary support to public sector enterprises		
	A.2 Budgetary support to central public enterprises has been reduced significantly, with nonplan loans and transfers to public enterprises projected to drop by about 25% in 1991-92 and budgetary plan support for investment by public enterprises (loans and equity contributions) by 10%.	B.1 As part of its program of fiscal adjustment and to ease the burden on the budget, the Government will adopt and initiate the implementation of a satisfactory phased action plan to eliminate within three years (i.e., by the end of 1994/95) budgetary transfers and loans to sick central public enterprises and budgetary plan support (loans and equity) for public enterprise investments except in energy, transport, and other infrastructure. Under the action plan, Government guarantees of central public enterprise borrowings will be limited to essential infrastructure, exploitation of oil and mineral reserves, and strategic-related activities.
Formulation of an exit policy for public enterprises		
	A.3 The Government is developing an exit policy for public enterprises.	B.2 In the case of units that are patently unviable, the Government will form a satisfactory action program to initiate restructuring and closure procedures.

AREAS OF REFORM	A. MEASURES ALREADY TAKEN	B. ACTIONS TO BE TAKEN PRIOR TO SECOND TRANCHE RELEASE
		B.3 The Government will take actions to ensure that, except for central public enterprises already determined to be unviable by the Government (B.2), all public enterprises that are sick according to the criteria specified in the Sick Industrial Companies Act (SICA) henceforth will automatically be referred to the Board for Industrial and Financial Reconstruction (BIFR) for assessment of their prospects and subsequent winding up or rehabilitation. All such sick central public enterprises will be referred to BIFR.
Divestiture	A.4 Government disinvestment of 20% of the equity of selected public enterprises has been announced; shares would be sold to mutual funds and other financial institutions, which will then resell them to the general public. Disinvestment is expected to yield proceeds of at least Rs. 25 billion for the budget in 1991-92.	B.4 The detailed program for disinvestment of 20% of equity in selected public enterprises, to yield Rs 25 billion, will be finalized and approved by the Government and implementation of the program will be completed by the end of 1991/92. B.5 Building on the 20% disinvestment, a satisfactory action program to progressively increase the private equity share in profitable central public enterprises to 49% within three years will be promulgated by the Government, along with a list of the companies concerned and a timetable for implementation.

THE STATUS OF BANK GROUP OPERATIONS IN INDIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS

(As of September 30, 1991)

Loan or Credit No.	Fiscal Year of Approval	Purpose	US$ Million (net of cancellations) IBRD	IDA 1/	Undisbursed 2/
76 Loans/			5465.2	-	-
154 Credits fully disbursed			-	10703.2	-
1172-IN	1982	Korba Thermal Power II	-	400.0	20.16
1177-IN	1982	Madhya Pradesh Major Irrigation	-	220.0	47.88
1178-IN	1982	West Bengal Social Forestry	-	29.0	0.24
2076-IN	1982	Ramagundam Thermal Power II	280.0	-	9.61
1280-IN	1983	Gujarat Water Supply	-	72.0	24.94
1319-IN	1983	Haryana Irrigation II		150.0	28.20
1356-IN	1983	Upper Indravati Hydro Power	-	170.0	35.69
2278-IN	1983	Upper Indravati Hydro Power	156.4	-	156.01
1369-IN	1983	Calcutta Urban Development III	-	147.0	79.64
2283-IN	1983	Central Power Transmission	250.7	-	129.78
2295-IN	1983	Himalayan Watershed Management	31.2	-	9.48
1383-IN	1983	Maharashtra Water Utilization	-	32.0	1.48
2329-IN	1983	Madhya Pradesh Urban	18.1	-	5.64
1424-IN	1984	Rainfed Areas Watershed Dev.	-	31.0	26.93
1426-IN	1984	Population III	-	70.0	2.06
1432-IN	1984	Karnataka Social Forestry	-	27.0	7.25
2387-IN	1984	Nhava Sheva Port	250.0	-	20.81
2393-IN	1984	Dudhichua Coal	109.0	-	18.96
2403-IN	1984	Cambay Basin Petroleum	213.5	-	34.09
2415-IN	1984	Madhya Pradesh Fertilizer	172.6	-	6.44
1454-IN	1984	Tamil Nadu Water Supply	-	36.5	20.44
SF-12-IN	1984	Tamil Nadu Water Supply	-	36.5	32.50
SF-16-IN	1984	Periyar Vaigai II Irrigation	-	17.5	11.89
1483-IN	1984	Upper Ganga Irrigation	-	125.0	85.63
1496-IN	1984	Gujarat Medium Irrigation	-	172.0	81.59
2416-IN	1984	Indira Sarovar Hydroelectric	17.4	-	12.40
SF-20-IN	1984	Indira Sarovar Hydroelectric	-	13.8	17.00
1613-IN	1985	Indira Sarovar Hydroelectric	-	13.2	16.97
2417-IN	1984	Railways Electrification	279.2	-	24.73
2442-IN	1984	Farakka II Thermal Power	300.8	-	118.14
2452-IN	1984	Fourth Trombay Thermal Power	135.4	-	10.70
1502-IN	1984	National Cooperative Development Corporation III	-	220.0	79.22
1514-IN	1985	Kerala Social Forestry	-	31.8	13.11
1523-IN	1985	National Agric. Extension I	-	39.1	26.55
1544-IN	1985	Bombay Urban Development	-	138.0	102.38
2497-IN	1985	Namarda (Gujarat) Dam and Power	200.0	-	200.00
1552-IN	1985	Narmada (Gujarat) Dam and Power	-	100.0	34.81
1553-IN	1985	Narmada (Gujarat) Canal	-	150.0	76.68
1589-IN	1985	Second National Agricultural Ext.	-	49.0	28.02
1611-IN	1985	National Social Forestry	-	165.0	68.65
2498-IN	1985	Jharia Coking Coal	57.7	-	5.28
2534-IN	1985	Second National Highways	200.0	-	135.64
2544-IN	1985	Chandrapur Thermal Power	300.0	-	125.58
2555-IN	1985	Rihand Power Transmission	250.0	-	59.15
2592-IN	1985	Kerala Power	176.0	-	187.82
1610-IN	1986	West Bengal Minor Irrigation	-	99.0	109.13

Loan or Credit No.	Fiscal Year of Approval	Purpose	US$ Million (net of cancellations) IBRD	IDA 1/	Undisbursed 2/
1621-IN	1986	Maharashtra Composite Irrigation	-	160.0	179.03
1622-IN	1986	Kerala Water Supply and Sanitation	-	41.0	36.47
1623-IN	1986	West Bengal Population	-	51.0	25.56
1631-IN	1986	National Agricultural Research II	-	72.1	58.82
2629-IN	1986	Industrial Export Dev. Finance	90.0	-	12.55
2630-IN	1986	ICICI-Indus. Exp. Dev. Finance	160.0	-	26.80
1643-IN	1986	Gujarat Urban	-	62.0	45.48
2660-IN	1986	Cement Industry	165.0	-	89.94
2661-IN	1986	ICICI - Cement Industry	35.0	-	15.97
1665-IN	1986	Andhra Pradesh II Irrigation	-	140.0	145.12
2662-IN	1986	Andhra Pradesh II Irrigation	131.0	-	131.00
2674-IN	1986	Combined Cycle Power	485.0	-	36.64
2730-IN	1986	Cooperative Fertilizer	118.3	-	24.63
1737-IN	1987	Bihar Tubewells	-	68.0	67.18
2769-IN	1987	Bombay Water Supply & Sewerage III	40.0	-	40.00
1750-IN	1987	Bombay Water Supply & Sewerage III	-	145.0	105.76
1754-IN	1987	National Agric. Extension III	-	85.0	61.87
1757-IN	1987	Gujarat Rural Roads	-	119.8	104.46
1770-IN	1987	National Water Management	-	114.0	98.05
2785-IN	1987	Oil India Petroleum	140.0	-	60.46
2796-IN	1987	Coal Mining & Quality Improvement	340.0	-	122.37
2813-IN	1987	Telecommunications IX	193.0	-	35.41
2797-IN	1987	Uttar Pradesh Urban Development	20.0	-	20.00
1780-IN	1987	Uttar Pradesh Urban Development	-	130.0	95.64
2827-IN	1987	Karnataka Power	330.0	-	289.35
2844-IN	1987	National Capital Power	425.0	-	238.22
2845-IN	1987	Talcher Thermal	375.0	-	327.30
2846-IN	1987	Madras Water Supply	53.0	-	44.61
2893-IN	1988	National Dairy II	200.0	-	200.00
1859-IN	1988	National Dairy II	-	160.0	61.07
2904-IN	1988	Western Gas Development	283.2	-	19.27
2928-IN	1988	Indus. Fin. & Tech. Asst.	360.0	-	110.07
2935-IN	1988	Railway Modernization III	390.0	-	255.37
2938-IN	1988	Karnataka Power II	260.0	-	233.29
2957-IN	1988	Uttar Pradesh Power	350.0	-	302.95
1923-IN	1988	Tamil Nadu Urban Dev.	-	300.2	218.16
1931-IN	1988	Bombay & Madras Population	-	57.0	18.00
2994-IN	1989	States Roads	170.0	-	170.00
1959-IN	1989	States Roads	-	80.0	58.32
3024-IN	1989	Nathpa Jhakri Power	485.0	-	448.29
1952-IN	1989	National Seeds III	-	150.0	102.49
3044-IN	1989	Petroleum Transport	340.0	-	305.00
2008-IN	1989	Vocational Training	-	250.0	224.78
3045-IN	1989	Vocational Training	30.0	-	30.00
2010-IN	1989	Upper Krishna Irrigation II	-	160.0	126.46
3050-IN	1989	Upper Krishna Irrigation II	165.0	-	165.00
3058-IN	1989	Export Development	120.0	-	89.44
3059-IN	1989	ICICI - Export Development	175.0	-	136.04
2022-IN	1989	National Sericulture	-	147.0	128.83
3085-IN	1989	National Sericulture	30.0	-	30.00
3093-IN	1989	Electronics Industry Dev.	8.0	-	7.50
3094-IN	1989	ICICI - Electronics Ind. Dev.	101.0	-	64.98
3095-IN	1989	IDBI - Electronics Ind. Dev.	101.0	-	79.19
3096-IN	1989	Maharashtra Power	400.0	-	376.65
2057-IN	1989	Nat'l. Family Welfare Trng.	-	113.3	98.71
3108-IN	1989	Nat'l. Family Welfare Trng.	11.3	-	11.30
3119-IN	1990	Industrial Technology Development	145.0	-	121.00
2084-IN	1990	Industrial Technology Development	-	55.0	53.89

Loan or Credit No.	Fiscal Year of Approval	Purpose		US$ Million (net of cancellations) IBRD	IDA 1/	Undisbursed 2/
3144-IN	1990	Punjab Irrigation/Drainage		15.0	-	15.00
2076-IN	1990	Punjab Irrigation/Drainage		-	150.0	147.91
2115-IN	1990	Hyderabad Water Supply		-	79.9	77.23
3181-IN	1990	Hyderabad Water Supply		10.0	-	10.00
3196-IN	1990	Cement Industry Restructuring		300.0	-	283.73
3175-IN	1990	Watershed Development (Hills)		13.0	-	13.00
2100-IN	1990	Watershed Development (Hills)		-	75.0	77.27
3195-IN	1990	Technician Education I		25.0	-	25.00
2130-IN	1990	Technician Education I		-	235.0	226.98
3197-IN	1990	Watershed Development (Plains)		7.0	-	7.00
2131-IN	1990	Watershed Development (Plains)		-	55.0	54.91
3199-IN	1990	Population Training VII		10.0	-	10.00
2133-IN	1990	Population Training VII		-	86.7	81.38
2158-IN	1990	Tamil Nadu Integrated Nutrition II		-	95.8	93.95
3237-IN	1990	Northern Region Transmission		485.0	-	462.75
3239-IN	1990	Private Power Utilities I (TEC)*		98.0	-	98.00
3253-IN	1991	ICDS I (Orissa & Andhra Pradesh)		10.0	-	10.00
2173-IN	1991	ICDS I (Orissa & Andhra Pradesh)		-	98.0	93.75
3258-IN	1991	Petrochemicals II		12.0	-	11.00
3259-IN	1991	Petrochemicals II		233.0	-	199.57
3260-IN	1991	A.P. Cyclone Emergency Reconstruction		40.0	-	40.00
2179-IN	1991	A.P. Cyclone Emergency Reconstruction		-	170.0	127.55
3300-IN	1991	Tamil Nadu Agricultural Development		20.0	-	20.00
2215-IN	1991	Tamil Nadu Agricultural Development		-	92.8	82.10
2223-IN	1991	Technician Education II*		-	307.1	290.43
2234-IN	1991	Maharashtra Rural Water Supply		-	109.9	97.81
3325-IN	1991	Dam Safety		23.0	-	23.00
2241-IN	1991	Dam Safety		-	180.0	122.58
3334-IN	1991	Industrial Pollution Control*		124.0	-	124.00
2252-IN	1991	Industrial Pollution Control*		-	31.6	31.83
3344-IN	1991	Private Power Utilities II (BSES)		200.0	-	167.45
3364-IN	1991	Gas Flaring Reduction		450.0	-	360.00
3391-IN	1992	Oil and Gas Sector Development		150.0	-	50.00
2300-IN	1992	Child Survival and Safe Motherhood*		-	214.5	218.88
	Total			18313.0	18047.1	12836.9
	of which has been repaid			3003.5	738.4	
	Total now outstanding			15309.4	17308.7	
	Amount Sold		133.8			
	of which has been repaid		133.8			
	Total now held by Bank and IDA 3/			15309.4	17308.7	
	Total undisbursed (excluding *)			7597.3	4476.4	

1/ IDA Credit amounts for SDR-denominated Credits are expressed in terms of their US dollar equivalents, as established at the time of Credit negotiations and as subsequently presented to the Board.

2/ Undisbursed amounts for SDR-denominated IDA Credits are derived as the undisbursed balance expressed in SDR equivalents (in turn derived as the difference between the original principal expressed in SDRs (based on the exchange rate in effect at negotiations) and the cumulative disbursements converted to SDR equivalents at the exchange rates prevailing at the respective dates of disbursements less cancellations expressed in SDR equivalents at the exchange rates prevailing at the date(s) of cancellations) converted to US dollar equivalents at the SDR/US dollar exchange rate in effect on September 30, 1991.

3/ Prior to exchange adjustment.

* Not yet effective.

B. STATEMENT OF IFC INVESTMENTS

(As of September 30, 1991)

Fiscal Year	Company	Amount (US$ million) Loan	Equity	Total
1959	Republic Forge Company Ltd.	1.50	-	1.50
1959	Kirloska Oil Engines Ltd.	0.85	-	0.85
1960	Assam Sillimanite Ltd.	1.36	-	1.36
1961	K.S.B. Pumps Ltd.	0.21	-	0.21
1963-66	Precision Bearings India Ltd.	0.65	0.38	1.03
1964	Fort Gloster Industries Ltd.	0.81	0.40	1.21
1964-75-79/90	Mahindra Ugine Steel Co. Ltd.	11.81	2.84	14.65
1964	Lakshmi Machine Works Ltd.	0.96	0.36	1.32
1967	Jayshree Chemicals Ltd.	1.05	0.10	1.15
1967	Indian Explosives Ltd.	8.60	2.86	11.46
1969-70	Zuari Agro-Chemicals Ltd.	15.15	3.76	18.91
1977-87	Escorts Limited	15.55	-	15.55
1978-87/91	Housing Development Finance Corp.	104.00	2.10	106.10
1980/82/87/89	Deepak Fertilizer and Petrochemicals Corporation Ltd.	7.50	4.23	11.73
1982	Coromandel Fertilizers Limited	15.88	-	15.88
1981-86-89	Tata Iron and Steel Company Ltd.	72.03	21.46	93.49
1981-82	Nagarjuna Coated Tubes Ltd.	1.50	0.24	1.74
1982-86-87/91	Nagarjuna Signode Limited	2.99	0.41	3.40
1981-82	Nagarjuna Steels Limited	2.88	0.24	3.12
1982	Ashok Leyland Limited	28.00	-	28.00
1982	The Bombay Dyeing and Manufacturing Co. Ltd.	18.80	-	0.00 18.80
1983	Bharat Forge Company Ltd.	15.90	-	15.90
1982-87	The Indian Rayon Corp. Ltd.	14.57	-	14.57
1984-86	The Gwalior Rayon Silk Manufacturing (Weaving) Co. Ltd.	15.95	-	15.95
1985/91	Bihar Sponge	15.24	0.68	15.92
1985	Bajaj Auto Ltd.	23.93	-	23.93
1985	Modi Cement	13.05	-	13.05
1985-86/90-91	India Lease Development Ltd.	8.50	0.78	9.28
1986	Larsen and Toubro Ltd.	18.67	-	18.67
1986	India Equipment Leasing Ltd.	2.50	0.30	2.80
1986	Bajaj Tempo Limited	30.54	-	30.54
1986-87	The Great Eastern Shipping Company Ltd.	8.00	10.66	18.66
1987	Gujarat Narmada Valley Fertilizer	38.07	-	38.07
1987	Hero Honda Motors Ltd.	7.74	-	7.74
1987	Wimco Limited	4.70	-	4.70
1987-89/90	Titan Watches Limited	22.02	0.56	22.58
1987	Export-Import Bank of India	14.55	-	14.55
1987	Gujarat Fusion Glass Ltd.	7.52	1.70	9.22
1987	The Gujarat Rural Housing Finance Corp.	-	0.19	0.00 0.19
1987	Hindustan Motors Ltd.	38.13	-	38.13
1988	Invel Transmissions Ltd.	-	1.07	1.07
1989	WBI Advanced Technology	-	0.20	0.20
1989-90	Keltron Telephone Instruments, Ltd.	-	0.40	0.40
1989	Gujarat State Fertilizer	29.44	-	29.44
1989	Ahmedabad Electricity Company, Ltd.	20.93	-	20.93
1990-91	Tata Electric	108.13	-	108.13
1990	JSB India Securities Firms	-	0.37	0.37
1981-90	Mahindra & Mahindra Ltd.	28.19	8.97	37.16
1990	UCAL Fuel Systems Ltd.	-	0.63	0.63
1991	Indust. Credit & Investment Corp. of India	-	25.00	25.00
1991	CESC Ltd.	21.04	-	21.04
1991	Herdillia Oxides and Electronics Ltd.	-	0.29	0.29
1991	Infrastructure Leasing & Financial Services	15.00	1.81	16.81
1991	Triveni Pool Intairdril Ltd. (TPIL)	-	0.55	0.55
1991	Bombay Electric	68.00	-	68.00
1991	Varun Transport, Storage & Communications	2.04	1.71	3.75
1991	TDICI Development Finance Companies	-	2.19	2.19
1991	Export Finance	0.43	-	0.43
1992	Block KG-OS-IV	-	8.20	8.20
	TOTAL GROSS COMMITMENTS	904.86	105.64	1010.50
Less:	Cancellation, Terminations, Repayments and Sales	436.81	26.82	463.63
	Now Held	468.05	78.82	546.87
	Undisbursed	194.24	32.46	226.70

ANNEX V

INDIA

STRUCTURAL ADJUSTMENT LOAN/CREDIT

Supplementary Loan Data Sheet

I. Timetable for Key Events

(a) Time Taken to Prepare the Project: three months.

(b) Appraisal Mission: September 30-October 10, 1991.

(c) Completion of Negotiations: October 30, 1991.

(d) Planned Date of Effectiveness: December 1991.

II. Special Conditions

None.