REPORT ON THE MARCH 1992 CONSULTATION WITH INDIA

1. The Committee consulted with India on 19 March 1992, in accordance with its terms of reference, pursuant to Article XVIII:12(a) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments purposes (BISD 26S/205). The consultation was held under the chairmanship of Mr. J.-F. Boittin (France). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV:2 of the General Agreement.

2. The Committee had the following documents before it:

   - Basic document provided by India BOP/308/Rev. 1
   - Background paper by the Secretariat BOP/W/142
   - International Monetary Fund, Recent Economic Developments, dated 16 October 1991.

Opening statement by the representative of India

3. The opening statement of the representative of India is attached as Annex I.

Statement by the representative of the International Monetary Fund

4. The statement made by the representative of the International Monetary Fund is also attached as Annex II.

Balance-of-payments position and prospects: alternative measures to restore equilibrium

5. Members of the Committee generally expressed their appreciation for the documents and statements made. Very strong support was expressed for the efforts undertaken by the new Government of India in embarking on a comprehensive reform programme, the implementation of which had started in July 1991. The reform aimed at stabilising and restructuring the economy,

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1 The consultation was originally scheduled for November 1991. It was postponed until March 1992 (BOP/R/196).

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reorienting it from over-regulation and overprotection toward more openness, deregulation, demonopolisation and liberalization. India had introduced its economic reforms at a time when its balance-of-payments position, as a result of a number of external and internal developments, had been very weak, or even critical. Despite this unfavorable background, the Indian Government, in its recent Budget proposal, had announced the intensification of economic reforms. Members of the Committee encouraged India to continue to implement and pursue vigorously the economic reform process.

6. A number of specific economic reform measures, such as a more open approach to foreign investment, the elimination of industrial licensing, reduction in the budget deficit and moves toward convertibility of the rupee were particularly welcomed. India was asked to give information on the prospects and the time-frame for achieving full convertibility, as well as its eventual programme of privatization. One delegation urged India to extend its reform to the taxation system and to privatize State enterprises.

Systems, methods and effects of import restrictions

7. Members of the Committee welcomed the announcement by India, after a period of intensification of its import restrictions in 1990 and in the first half of 1991, of a trade liberalization programme on 4 July 1991 as part of its comprehensive economic reforms. Members recognised the trade liberalization measures taken by India since then, in particular, the phasing-out of import restrictions on a broad spectrum of goods, the introduction of a simplified procedure for imports of capital goods, the decanalization of imports for almost 40 items, the reduction of coverage of actual user requirement and the lowering of the tariff ceiling to 110 per cent. The elimination of the cash compensatory scheme, used to subsidise exports, was also welcomed. Members noted with satisfaction that the 1992 Budget proposal of the Indian Government contained further deregulation and trade liberalization provisions, including the replacement of Eximscrip by a dual exchange rate system. Members encouraged India to take further market based measures in the direction of trade liberalization.

8. Some members noted that India's trade regime, despite the improvements introduced, was still broad and complex and lacked transparency. Moreover, Indian tariffs remained very high, measured by international standards. The question was asked whether India had a more precise tariff reduction programme and whether it was willing to bind tariff reductions in the GATT in the near future.

9. One delegation stated that in the past his authorities had had some doubts about the full consistency of India's trade restrictions with the
spirit of Article XVIII:B of the GATT. In the light of India's reforms these doubts had eased. Together with some other delegations, he asked about India's plans concerning continued invocation of Article XVIII:B.

10. Another member expressed his concern that trade related laws and regulations were changed very frequently in India. Moreover, there could be differences between the wording of laws and regulations and the way they were implemented by local administrations, which were often not in a position to follow the rapid changes in rules. This gave rise to some uncertainty regarding the real scope of reforms. In this respect he indicated some specific features of the Indian trading regime, namely the application of high auxiliary duties, an outdated customs valuation method and supplementary taxes imposed by different States.

11. One member asked the Indian delegation for India's estimate of the portion of imports that would continue to be covered by discretionary import licensing under the new import-export policy; whether India would end actual user requirements for goods still subject to import licensing; whether the 110 per cent tariff ceiling was to apply to all border charges, including auxiliary or additional duties; how selective import bans could be justified; whether a timeframe could be established for phasing out of the the import bans on consumer goods, the restricted list of licences and the canalization of selected imports; what percentage of imports was currently subject to canalization; and how import bans could be consistent with the obligation in Article XVIII:10 to allow the importation of minimum commercial quantities.

12. Another member, in the light of the increased competitiveness of the Indian watch industry, asked for information and justification regarding a proposed increase by 5 to 10 per cent in customs duties on imports of watches. He also asked whether the Indian authorities had the intention to abolish price controls in the pharmaceutical sector.

13. In reply, the representative of India noted with satisfaction that there was no discordant note in the Committee in regard to the gravity of the balance of payments difficulties faced by India nor about the measures adopted by the Government for overcoming them. The balance-of-payments position of India was still weak and continued to be vulnerable to external factors. India's capacity to pursue liberalization measures would, to a large extent, depend on the international economic and trading environment. It would not be correct to assume that the Uruguay Round results alone would provide the supportive international environment for sustaining present, and pursuing additional liberalization measures. The creation of a favourable external economic environment needed additional efforts from the international community not only in the context of the Uruguay Round but also outside it.
14. Full convertibility of the Indian rupee could be achieved within 3 to 5 years time. This, however, depended on several factors, including the balance of payment position of the country and the external trade and economic environment. In some of these areas, developments were not under India's control.

15. There was no precise time-table for bringing about privatization of state-owned units. However, a beginning had already been made through disinvestment in some large public sector enterprises.

16. The levy of supplementary taxes by the States was on account of the federal structure of the Indian constitution. Questions of inter-state taxation were currently before the Inter-State Council set up by the Government in 1990.

17. While the criticism over the complexity of regulations governing imports was not totally unjustified, the Government had taken measures to simplify the procedures and to make the system more transparent. The publication of import restrictions on HS line basis was a step in that direction. The coverage under import licensing had been reduced. India was in the process of further simplifying the procedures, which would go hand-in-hand with reform process.

18. India had signed the Customs Valuation Code and the valuation procedures being followed were in accordance with the obligations under the Code. India was ready to examine specific complaints, if requested.

19. At present, no more than 10 per cent of imports by value was subject to discretionary import licensing. India's aim under the current reforms was to further reduce the coverage of discretionary import licensing to a very small proportion.

20. With the substantial elimination of import licensing, actual user requirements were also eliminated for items de-licensed. However, it would remain for the remaining small proportion of imports which were permitted only on merits. The actual user requirement, which did not permit imports for stock/sale and trading purposes, was designed to permit efficient use of limited foreign exchange resources.

21. The 110 per cent tariff ceiling included auxiliary duties and other specific charges. The current auxiliary duty was in the range of 5 to 45 per cent. It was India's intention to reduce high tariffs. However, revenue considerations were important factors in determining the level of tariffs. Difficulties in finding alternate sources of revenue made it impossible to bring down tariff levels substantially over a short period of time. In reply to the question regarding increase in excise duty on watches, he explained that while the Budget proposals presented to
Parliament on 29 February 1992, proposed increase in the excise duty on
watches from 5 to 10 per cent, the Budget proposals had not so far been
approved by Parliament.

22. At present, only imports of beef tallow and some animal fats were
banned for reasons of religious sensitivities. Consumer goods were subject
to licensing and no precise time-table had been established for phasing out
these restrictions. In the light of the weak balance-of-payments
situation, removal of import restrictions on consumer goods would come
last. The review of the restricted list was a continuing exercise which
would depend to a large extent on the improvement in the
balance-of-payments situation. Leaving out POL imports, about 8 per cent
of imports by value were subject to canalization. This ratio would fall
over a period of time, since decanalization was one of the objectives of
trade policy.

23. According to India's interpretation of Article XVIII:10, when imports
were allowed they should be allowed in at least minimum commercial
quantities. The Government recognised that protection through tariff was
the preferred option.

24. The question of disinvocation of Article XVIII:B cover depended on
many imponderables. It would, therefore, not be possible to indicate a
precise time-frame for disinvocation of the balance of payments cover. The
long-term policy objective of the Government, however, clearly indicated a
shift towards price-based measures to tackle balance-of-payments problems.

25. India, like many other countries, including some developed ones,
applied price controls on pharmaceutical products for reasons of public
policy. The per capita income in India was extremely low and almost
40 per cent of the population was living below the poverty line. In that
situation, the Government would have to ensure supply of essential drugs
and pharmaceuticals at affordable prices. It would not, therefore, be
possible to do away with administrative pricing of essential drugs.

Aspects relating to Paragraph 12 of the 1979 Declaration

26. A number of participants, making reference to paragraph 12 of the
Declaration on Trade Measures Taken for Balance-of-Payments Purposes,
expressed concern over the unfavorable foreign trade environment relative
to Indian exports, especially in the textiles sectors. It was pointed out
that an unfavorable external environment could slow down the implementation
of India's economic and trade reform programme. A successful conclusion of
the Uruguay Round could contribute substantially to the alleviation of
India's trade problems.
27. The representative of India emphasized the importance of trade in textiles for his country and said that textile and clothing was one of the sectors, where India had competitive advantage. The results of negotiations in that area in the Uruguay Round were not satisfactory from India's point of view. It would be necessary to provide increased market access opportunities to India in this sector, over and above the Uruguay Round results on textiles and clothing. Such increased market access opportunities would help in alleviating India's balance-of-payments difficulties to a considerable extent. He urged contracting parties to take concrete actions in order to improve market access for Indian products, which would provide a favourable external environment, which would in turn enable his authorities to sustain their reform measures.

Conclusions

28. The Committee recognised the continuing fragility of the balance-of-payments position of India and commended the Indian authorities for launching its comprehensive reform programme. It particularly welcomed the measures already taken to introduce economic liberalization and reduce bureaucratic intervention. The Committee encouraged India to continue to implement and pursue vigorously the economic reform process.

29. The Committee noted with satisfaction that India, despite its exceedingly weak balance-of-payments situation in 1991, had already started to reduce trade restrictions and reform trade policies by withdrawing cash compensatory support to exports and reducing very high tariffs, the scope of quantitative import restrictions and canalization. It welcomed the statement by India outlining further deregulation and liberalization provisions in the 1992/93 Budget proposal, including the replacement of Exim Scrip by a dual exchange rate system. It noted, however, that the system of trade restrictions remained broad and complex.

30. The Committee encouraged the Indian authorities to undertake further liberalization and, in the light of changes in the balance-of-payments situation, to continue progressively to phase out the restrictions maintained for balance-of-payments purposes, bearing in mind the relevant provisions of the 1979 Declaration.

31. The Committee, bearing in mind the provisions of paragraph 12 of the 1979 Declaration, agreed that a more favourable external environment, in particular in the textiles sector, would contribute to assisting India's trade and economic reform programmes and also noted, in this context, the positive impact that would result from a successful conclusion of the Uruguay Round.
ANNEX I

Opening Statement by India at the Balance of Payments Committee meeting on consultations with India under Article XVIII:12(a) of the General Agreement
March 19, 1992

1. The basic document provided by India for the 1992 consultations under Article XVIII:12(a) is before the Committee. The background paper of the GATT Secretariat gives details of the general trend of economic and trade developments from the time of the last consultations in 1989. Since submission of this basic document, Government of India announced a number of major policy changes on February 29, 1992 while presenting the budget for 1992-93. In this statement, I propose to bring to the Committee's notice the salient features of the new policy package and also provide an overview of the developments in India's balance-of-payments position and Government's policy responses to these developments.

2. As these documents clearly bring out, India's balance-of-payments position has been under severe pressure in recent years owing to a number of medium-term and short-term factors. These include:

   - large and persistent trade deficit and the declining capacity of invisibles to finance this deficits.
   - cumulation of debt service liabilities from past obligations.
   - slow down in world trade following recessionary conditions in industrialised countries.
   - economic disruption in former USSR and Eastern Europe, resulting in declining exports and rising imports during the initial months of 1990-91.
   - Gulf Crisis leading to a wide-ranging disruption in the external payments situation such as:
     a) sharp increase in POL import bill due to steep rise in their prices and volume growth in the wake of relative stagnation in domestic output of these products; and
     b) partial loss of export markets in West Asia and foreign exchange expenditure on repatriation of Indians from the affected countries in the Middle East.
precipitous fall in receipts from private remittances, travel and tourism earnings, due to a degree of social and political instability in certain parts of the country

- unprecedented set back during 1990-91 in net accruals in non-resident deposits which had financed nearly 1/4th of the current account deficit in recent years.

- downgrading of India's credit rating, combined with the general shortage of liquidity in the international financial markets resulting in the drying up of commercial borrowings both as long-term and short-term sources of finance.

3. These medium-term and short-term, factors resulted in a massive depletion of foreign exchange reserves leading to an extremely critical payments situation. When this Committee met in October, 1989, our reserves were equivalent to about two months of imports. Subsequently, these dwindled to level barely sufficient for two weeks of imports. With a view to ensuring that the external payment obligations were met, certain exceptional steps were taken including transactions relating to gold. One set of measures was aimed at emergency import compression (notified vide L/6765 and L/6846).

4. The new Government which assumed office in June 1991, moved rapidly to formulate a strategy for restoring viability in the external payment situation. The strategy relied upon restoration of macro economic stability through strict control over the fiscal deficit, tightening of monetary policy and adjustment in the exchange rate, and the announcement of major structural reforms in industrial and trade policies to bring about improvements in productivity and competitiveness in the medium-to-long-term. To this end, Government announced an initial package of trade policy reforms on 4 July, 1991. The package included measures aimed at strengthening export incentives, eliminating a substantial volume of import licensing and optimal import compression. Import compression measures included cash margin requirements under OGL and specific licences (see L/6839). However, imports of essential items such as POL and fertilizers were fully protected but other imports of raw materials and components were linked to export performance through enlargement and restructuring of the replenishment (REP) licensing system. The system of cash compensatory support for exports was abolished following changes in the exchange rate.

5. Further reforms were undertaken during the year 1991. The replenishment system was enlarged and re-structured to provide greater incentive for all categories of exports. REP licences were replaced by a new instrument called the Eximscrip. With the introduction of Eximscrip,
the system of supplementary licences for raw materials, components and spares, with certain exceptions, was discontinued. The advance licensing procedures were strengthened and streamlined. These policy changes resulted in considerable procedural simplification and substantial reduction in the volume of licensing for raw materials, components and other inputs needed for production. With the restructuring of import policy several items of exports and imports were decanalized.

6. These measures were geared to encourage exports and discourage imports. Moreover, a large part of the imports was directly related to exports. Hence, we were able to achieve import compression in an optimal manner. As the situation eased and we were able to generate foreign exchange, it was possible for us to liberalize the import compression measures in a phased manner. The cash margin requirements under OGL and specific licences introduced earlier were progressively relaxed between October 1991 and January, 1992, and altogether abolished with effect from 13 February, 1992.

7. The reform programme has been further deepened in the recently announced Budget for 1992-93. On the external trade front, Government has introduced a new system of partial convertibility of Indian rupee. The new system is designed to provide a powerful boost to Indian exports as well as to increase foreign exchange earnings from the invisible sector and limit imports to the generation of foreign exchange. Under this system, all foreign exchange remittances, whether earned through export of goods or services, or remittances, will be converted into rupees in the following manner: 40 per cent of the foreign exchange remitted will be converted at the official exchange rate while the remaining 60 per cent will be converted at the open market rate. The authorised dealers would be free to retain the 60 per cent of foreign exchange and sell it at the market rate for all authorised transactions. Forty per cent of the foreign exchange will be retained by the Reserve Bank of India to cover Government departmental needs and for the import of essential commodities namely, life saving drugs, crude oil, diesel, kerosene and fertilizers. The system will give Indians and foreigners greater freedom in handling their foreign exchange business in India. This new system has replaced the system of Eximscript introduced in July 1991.

8. Simultaneously, licensing system has been substantially eliminated. Except for a Negative List of raw materials, components, consumer goods and capital goods, which will be importable only against a licence, all other imports have been made freely importable at the market determined exchange rate.

9. Maximum tariff level, included auxiliary and other specific duties, has been further reduced to 110 per cent in the 1992-93 budget from the
previous maximum of 150 per cent. Import duties on capital goods are being reduced on at accelerated pace.

10. Given the importance of financial sector reform in the structural adjustment process, Government has introduced several reform measures in this sector in the current Budget. A phased reduction in the Statutory Liquidity Ratio (SLR) which, at present locks up large quantities of bank funds in relatively low yielding Government securities, will be implemented. The Securities and Exchange Board of India (SEBI) has been established on a statutory basis to oversee the functioning and operation of the capital and securities market. Guidelines have been set down for the operation of new private sector mutual funds. Government has also decided to permit companies with a good track record to issue convertible debentures or equity to investors abroad and to extend to these issues the same tax benefits as are available for off-shore mutual funds. Government will permit reputable foreign investors such as pension funds to invest in the Indian capital market. Finally, Indian companies will no longer have to seek Government permission to float equity on the domestic market or to get Government permission for such floatation. The Office of the Controller of Capital issues has been abolished.

11. In recognition of the vital rôle of direct foreign investment in upgrading our technology levels and integrating our industry into the global economy, Government is actively encouraging foreign investment in critical infrastructural sectors where capacities are inadequate and needs for investment are large. Another area which has been opened up for foreign direct investment is the Hydro-carbon sector; joint ventures will be permitted in both exploration and development including development of existing fields. As a significant departure from the policy followed so far, Government will also welcome domestic and foreign investment in the production, refining and marketing of oil and gas with a view to maximising the growth potential of this crucial areas.

12. Income tax structure has been considerably simplified. There will now be a 3-band structure with rates fixed at 20, 30 and 40 per cent. This simplification is accompanied by abolition of general exemptions.

13. Present Government's response to the economic crisis has been significantly different from that in the past. Rather than combat it by intensification of controls, it has resorted to deregulation and decontrol in most economic spheres. India does, however, face a formidable economic challenge with high deficits in the balance of payments and the budget. The external payments arrears have, however, been successfully avoided and the stage is now set for systematic programme to correct macro-economic imbalances. Government has made a good start in this direction. Fundamental structural reforms begun by Government are necessary to improve
the efficiency and competitiveness of the economy and to achieve export expansion and other supply responses needed to support long term growth and to strengthen India's creditworthiness. Government also recognises that it is essential to share the costs of adjustment equitable and to protect the most vulnerable segments of society.

14. Paragraph 12 of 1979 Declaration on Trade Measures taken for balance-of-payments purposes, provides that the Committee shall give particular attention to the possibilities for alleviating and correcting the balance of payments problem through measures to facilitate the expansion of export earnings of the consulting Contracting Party. India hopes that this aspect will be duly taken into account by the Committee. 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 on concessional terms and improvement in access conditions in the areas in which India is internationally competitive. The Committee would appreciate that in spite of unprecedented balance-of-payments problem, India has taken bold and courageous policy reforms aimed at macro-economic stabilization and restoration of the growth of momentum of the economy.
ANNEX II

Statement by the Fund Representative to the GATT Balance-of-Payments Committee

1. In the 1980s, India redirected its economic policies away from pervasive government controls geared toward creating a largely self-sufficient economy. An easing of regulations was coupled with a shift in trade policy toward promoting export growth and reducing the import substitution bias that had prevailed for many years. Although the shift in policy orientation was important, implementation was not based on a coherent programme of reform, thereby limiting the intended improvement in the efficiency of resource use. In the event, much of the liberalization effort was concentrated in improving the efficiency of new investment as it proved too difficult to overcome ingrained structural impediments, especially in the areas of public enterprise management and labour policies. Still, this policy shift contributed to an upward shift of the growth curve.

2. Accompanying these developments was a large deterioration in public sector finances that stemmed largely from rising current spending, including a growing burden of interest payments on public debt. A widening savings-investment gap in the public sector was accompanied by a doubling of the external current account deficit to 3 per cent of GDP by the end of the decade. The deterioration of the external accounts was mitigated by a strong growth of exports and the fact that a substantial real depreciation of the rupee after 1985, together with increases in tariff rates, largely offset the effects of import liberalization and higher economic growth. The widening current account deficit was mainly reflected in higher noncustoms imports (e.g., ships, defence equipment, recording time differences) and growing interest payments, reflecting increasing commercial borrowing.

3. The lack of coherence and predictability of the reform effort, and easier financial policies, accompanied by rising inflation expectations in the latter years of the decade, left the balance of payments highly vulnerable to external shocks. The Gulf crisis, coming at a time of rising inflation, weak external accounts, diminished external reserves (which at end-1989/90 amounted to only two months' equivalent of imports) triggered a crisis situation in India as well. With the current account deficit widening from US$8 billion in 1989/90 to US$10 billion (3.5 per cent of GDP) in 1990/91 under the impetus of rising petroleum prices and reduced workers' remittances, external creditors became concerned about India's ability to meet external obligations. Thus, with the consequent downgrading of India's credit rating, new external financing became hard to obtain.
4. In the difficult circumstances of early 1991 in which the fall of the Government, the assassination of Rajiv Gandhi, and the associated delay in the election process prevented the implementation of fundamental adjustment measures, interim steps had to be taken to maintain an orderly external payments situation. The authorities responded by managing import compression through foreign exchange restrictions implemented by the Reserve Bank of India. These restrictions included cash margin requirements (advance import deposits), restrictions on payments for capital goods imports, and prior clearance requirements for certain current transactions in foreign exchange. As the liquidity crisis heightened in the period through June 1991, these requirements were tightened progressively; subsequently, as the cash flow situation improved, they were gradually relaxed. The authorities did not view these restrictions as a permanent addition to the arsenal of exchange and trade restrictions in India and it was their firm intention to eliminate them as soon as the payments position permitted. It is a condition of the Fund stand-by programme with India, approved by the Executive Board on October 31, 1991, that a precise timetable for elimination of these restrictions, which were clearly introduced for balance-of-payments reasons, be established by the time of the first programme review, in the spring of 1992. In the event, the authorities moved as expeditiously as circumstances permitted toward complete elimination, which was accomplished two days ago - on March 17.

5. Since June 1991, the Government has been addressing the problem in a more comprehensive manner. A promising beginning has been made to the process of stabilizing the external accounts, correcting the deep-seated fiscal imbalance, and addressing the myriad structural problems that have contributed to inefficient resource utilization has been made. In July the exchange rate was devalued by 18.7 per cent vis-à-vis the dollar, interest rates were raised, and the 1991/92 budget was revised so as to cut the central government deficit by 2.5 percentage points of GDP - to 6.5 per cent of GDP - from its 1990/91 level. At the same time, substantial additional external financing was mobilised from the international community.

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1 A detailed chronology through early October, 1991, is contained in Appendix IV to the Recent Economic Developments paper for India (SM/91/207, October 18, 1991). The remaining restrictions were lifted progressively during the first three months of 1992.

2 Including two further CCFF drawings from the Fund in July and September 1991 totalling SDR 635 million (about US$850 million). India's request for an upper credit tranche stand-by arrangement in the amount of SDR 1,656 million (about US$2.3 billion) was approved by the Fund's Executive Board on October 31, 1991. The arrangement will cover the period from October 1991 to May 1993.
6. In the area of structural reform, the Government is making a clear break from the interventionist policies of the past. The changes already introduced in recent months are impressive and go a long way toward eliminating excessive bureaucratic intervention, allowing free entry of firms, and opening up the economy to increased domestic and foreign competition. The complex system of industrial licensing has been largely eliminated; the reservation of certain industries for the public sector has been sharply curtailed; foreign direct investment has been liberalized with a wide range of industries now automatically open to foreign equity participation of up to 51 per cent; and many quantitative import restrictions have been replaced by a tradable import entitlement. In other areas, the broad outlines of proposed policy reforms have been announced, but concrete and detailed measures are still being formulated. In particular, detailed proposals for tax reform, public enterprise restructuring, tariff reform, and further financial sector liberalization are to be in place by the time of the first review of the programme expected to take place in May, 1992.

7. The structural reforms should, in the medium term, support India's central policy objective of poverty alleviation. The intermediate steps are formulated in a way that helps protect the poor from the short-term costs of adjustment. This is particularly so with respect to key social expenditures on the fiscal side. With respect to the external position, monetary policies were tightened and the interest rate structure was further adjusted in early October 1991 - regular lending rates are now significantly positive in real terms, but deposit rates are still slightly below the current 12-month inflation rate (13 per cent). These measures were supported by further fiscal steps later in the year. Furthermore, the authorities intend to dismantle the system of trade restrictions over the next three to five years, moving toward a transparent price-based system with moderate protection for domestic industry. The first steps in this direction were taken in July 1991 with the abolition of cash export subsidies, reductions in peak tariff rates (that still, however, remain at very high levels), a halt to new phased manufacturing programmes, and the partial substitution of quantitative import restrictions by a tradable import entitlement - the Eximscrip. It was the authorities intention to use this latter scheme as a transitional vehicle for further import liberalization; the list of eligible imports was to be expanded gradually along with a phased increase in the Eximscrip entitlement rate. Indeed, in the recent Budget speech, the Minister of Finance announced such an

More detail on the operation of the Eximscrip and other aspects of India's exchange and trade systems is available in Appendix IV to the Recent Economic Developments paper for India.
expansion, under which the Eximscrip is replaced by a more explicit dual exchange rate which is then to be phased out as import liberalization proceeds. This process is being supported by a World Bank Structural Adjustment Loan aimed at reducing quantitative restrictions and tariffs.

8. The corrective measures adopted by the authorities, together with the provision of external financing from multilateral and bilateral sources, have helped ease the external reserve position in recent months. In particular, the heavy outflow of private capital that occurred earlier in 1991 appears to have been replaced by substantial inflows generated by special tax amnesty schemes and bond sales, as well as an unwinding of leads and lags. Nevertheless, the cash flow position will remain tight as import compression is eased further. A rebound in exports is expected over the medium term, although short-term prospects have been affected by the disruptions in the former Soviet Union, which used to account for about one fifth of India's export earnings. With access to commercial borrowing highly constrained, debt service ratios are projected to remain at about 27 per cent. Continued significant, albeit diminishing, financing needs are projected for the next several years. Under these circumstances, it is clear that the adjustment programme must be sustained over a considerable period of time if external viability is to be restored and inflation reduced.

9. The Fund strongly commends the Indian authorities for launching a comprehensive reform programme aimed at stabilizing the balance of payments in the near term and transforming the economy through wide ranging structural reforms over the longer term. While accepting that steps were needed to prevent a payments crisis in the difficult environment of early 1991, the Fund strongly supported the authorities' view that the restrictions introduced must be kept temporary and should be eliminated as soon as practicable. The Fund is encouraged by the unwinding of the exchange restrictions, the bold first steps toward reform of the trade system, including the lifting of some quantitative restrictions early this year, and the clear intention of making in the period ahead substantial and rapid progress toward a complete overhaul of India's trade system.