1962 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH INDIA

International Monetary Fund Executive Board
Decision Taken at the Conclusion of the Fund's Consultation with India on 26 February 1962

1. The Government of India has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. In 1960-61 real national income increased by 6.5 per cent; both agricultural and industrial production set new records. Agricultural production in 1961-62 is expected to be at about the same level despite less favorable weather conditions. Industrial production continues to expand. Business confidence remains high and the response of foreign private investment continues to be encouraging.

3. Monetary expansion in 1960-61 was in closer balance with the increase in real income. The main expansionary factor in the last year was the increase in credit to the private sector. With a sizable decline in bank credit in the 1961 slack season, the seasonal contraction in money supply in 1961 was greater than in 1960. Prices have declined on balance since the last consultations and the outlook for 1962 is one of price stability. Interest rates have been hardening in the organized sector and official policy remains one of dearer and tighter credit.

4. The Third Plan which commenced in April 1961 envisages total public sector outlay of Rs 75 billion. The outlook for mobilizing adequate internal resources appears favorable, given the needed effort. The Fund notes that the Indian authorities are determined to limit the volume of deficit financing and generally to follow policies designed to maintain internal stability. The foreign exchange requirements of the Plan are large and its fulfilment will call for substantial external assistance.

5. Even with the more cautious credit policy recently pursued India's balance of payments position remains difficult. In 1960-61 the current account deficit was substantially larger than in 1959-60. The outlook in 1961-62 is for a still larger current account deficit. Despite a sizable increase in net use of the Fund's resources India's external reserves have declined slightly in the past year. Exports in 1961-62 are running slightly higher than in 1960-61. The Fund notes that the Indian authorities are striving to expand their exports and are keeping their policies to this end under review.

Spec(62)226
6. Restrictions on imports and import payments continued to be severe. During the past year there have been slight modifications in India's bilateral payments arrangements. The Fund again urges that the use of such arrangements should be reduced to the fullest extent possible.

7. In concluding the 1961 consultations, the Fund has no other comments to make on the transitional arrangements maintained by India.