Committee on Balance-of-Payments Restrictions

INDIAN IMPORT SURCHARGES

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with India on 17 March 1963

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. India experienced a slowdown in its rate of growth during fiscal 1961-62. Due to adverse weather conditions, agricultural production failed to increase while the increase in industrial production in 1961 was the smallest since 1958. However, in the late spring of 1962, the rate of increase in industrial production began to accelerate. During the year there was some further relaxation of industrial policy in favor of the private sector; business confidence continues good. In October 1962, the large-scale attack on the northern frontier of India and the resulting declaration of a National Emergency changed the outlook drastically. The Emergency has increased the country's needs, but has also enhanced the incentives to more intense economic effort.

3. Monetary expansion in 1961-62 was about the same as in the previous year. Unlike the previous year, the main expansionary factor was an increase in credit to the public sector. Prices rose by about 2 per cent in 1962, as compared with a small decline in the previous year. Following the declaration of the Emergency, monetary policy was tightened and appears appropriate under the circumstances. In the fiscal field, heavy additional taxation, amounting to one fifth of existing revenues, has been proposed in the new budget for the fiscal year commencing April 1, 1963; the Fund welcomes this vigorous move to finance the large increase in expenditure by noninflationary means. The execution of the Third Plan met with some setback in the fiscal year 1961-62 on account of bottlenecks in coal, transport and power. Measures taken to deal with these have resulted in subsequent improvement. On the side of external finance, there is a danger that, in terms of amounts actually available for expenditure during the Plan period, external assistance, particularly on a nonproject basis, will fall short of the Plan's original requirements.

4. Exports have failed to increase appreciably and the current account deficit is expected to be substantially higher in 1962-63 than in 1961-62. The immediate balance of payments outlook is not good. Despite a drawing from the Fund under the stand-by, reserves declined during the past year but have recently

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1 See L/2060
risen more than seasonally. Restrictions on imports were further tightened during the year. Some invisible payments were also subjected to stricter controls. The new gold policy should also have the effect of substantially reducing the loss of reserves through gold smuggling. The Fund considers that more vigorous efforts should be made to expand exports, so as to make possible eventual relaxation of restrictions. The Fund considers that the feasibility of reducing the use of bilateral payments arrangements should be kept under close examination.

5. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by India.