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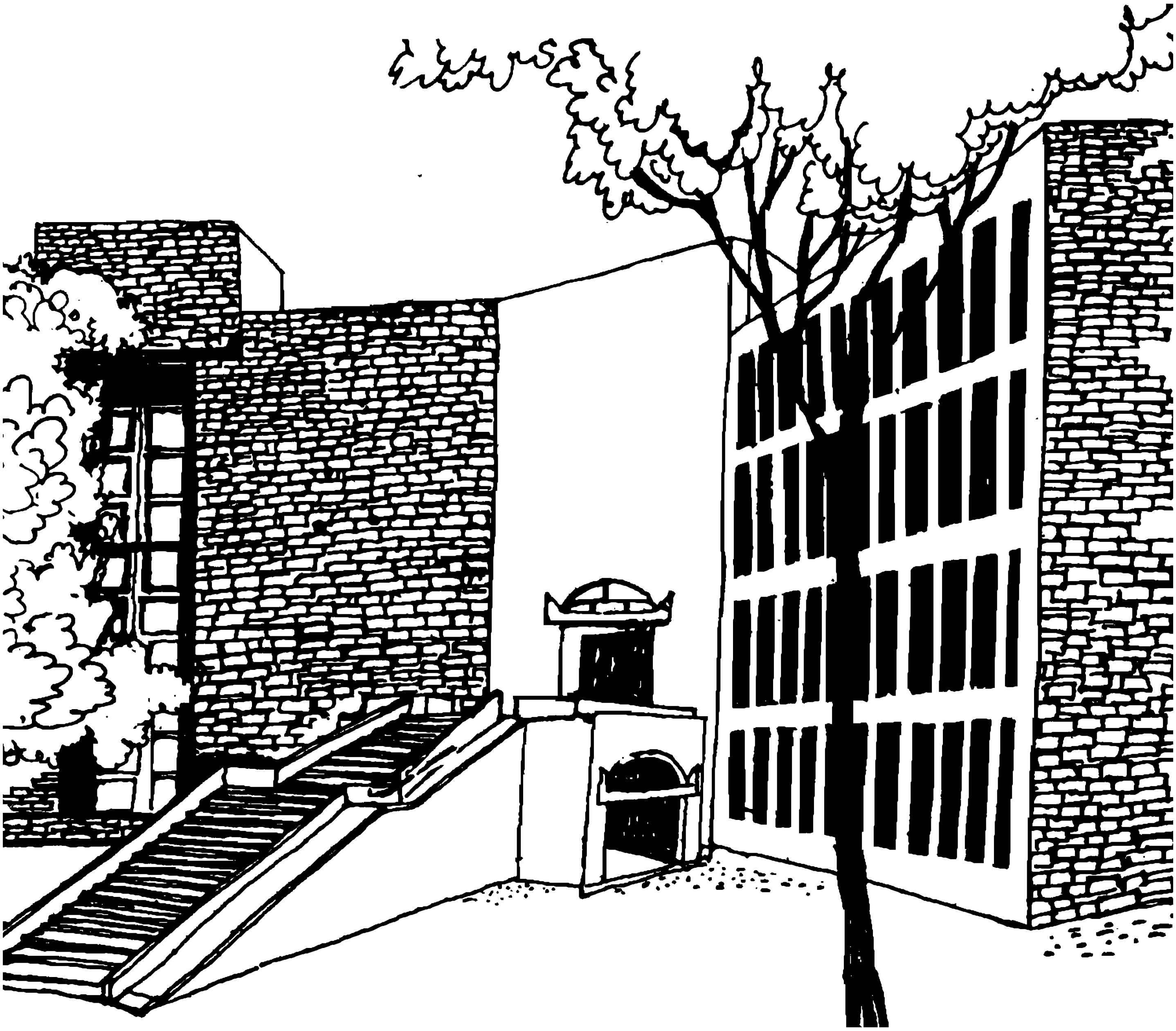

INDIAN ECONOMIC FORECAST
SEPTEMBER 1993

By

A.B. Rastogi

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INDIAN ECONOMIC FORECAST : SEPTEMBER 1993

by

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ABSTRACT

Is 1993-94 a reform holiday to build a consensus in the country and a stronger political resolve to undertake a fresh EFF from 1994-95? A battery of committees suggests that, though the government has postponed the EFF negotiations until after the 1993-94 budget, the government is going to announce further reforms in the trade sector and financial sector and political commitment to reforms. The Government's balancing act of stimulating economic activity and pursuing structural reform, coping with political tensions means that economy has gone into a transition phase. Notwithstanding the decline in the pace of reforms a `silent revolution' in attitude towards a market friendly economic system is taking place in India.

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By

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1. Introduction

In July 1991, when the World Bank-IMF led stabilization programme was introduced along with economic reforms, those who were in favour of the reforms had prayed for normal rains in India. They had assumed that chastened politicians would let the reforms run their course. Their prayers were heard by the rain god but their assumption has fallen flat on its face.

Is 1993-94 a reform holiday to build a consensus in the country and a stronger political resolve to undertake a fresh EFF from 1994-95? We critically evaluate the progress of reforms in different sectors of the economy.

In this paper we project growth in the agricultural and the non-agricultural sector. We analyse the reasons behind ballooning government deficit and a healthy growth of exports. Further we analyse whether exports have moved on a higher growth path and if so, what are its implications on exceptional financing needs of India.

2. Nature of IMF Conditionalities

The government made public its intention to negotiate with the IMF for an Extended Fund Facility. This would act as a cushion against any future balance of payment shock and help meet the bulge in repayment caused by debt-repayment liability beginning with 1994 when IMF's Stand-by loans payment starts.

It is widely believed that the multinational agencies have a rigid attitude to the package of macro-adjustment and borrowers have no freedom to modify them. Is it true? To understand the reform process let us understand the nature of IMF conditionalities. 'Conditionalities' according to the Fund are policies which a member should follow to avail itself of credit. Considerable emphasis is put on "working with", the underlying idea being that even after a less than fully satisfactory programme implemented initially, the member country would develop a better programme later on. That is why a popular terminology is not to use 'conditionality' but 'joint programme design'. The 'pre-emptive reforms' which minimize the policy commitment are normally introduced by a member state before asking for a credit from the Fund. The reforms introduced in India in 1982 and 1991 before the stand-by arrangement are examples of such pre-emptive reforms.

Although it has been vehemently denied by the government, the reforms outlined in *'Economic Reforms:Two Years After and the Task Ahead'* a discussion paper by the Ministry of Finance and made public on the eve of Aid India Club meeting can be assumed to be measures which the government would agree to implement under the Extended Fund Facility (EFF) agreement.

From the letters sent by the Finance Minister to the World Bank and the IMF, it is quite clear that the IMF is likely to press the government for liberalisation in the areas of company laws and labour laws while discussing the EFF loan. The reforms in the field of customs and excise duty, financial sector and trade policy have been announced publicly through the Chelliah Committee, the Narasimhan Committee and the 1993-94 budget. The gradual lifting of import controls on consumer goods would also be emphasised. In a way, the reduction in customs duty on baggage imports has paved the ground for such reforms already.

The question of unutilised aid, estimated to be around $18.5 billion, in the Aid India Consortium meeting, raised eye-brows of many donors and the officials have announced a special package for speedy utilisation of aid, but the specifics of this policy matters are not yet clear. Notwithstanding the details, the government is now obliged to take actions in critical areas, identified by the World Bank, to ensure success of the reform. The areas are tax review, export decontrols and liberalisation of consumer goods imports, financial sector reforms, speeding up of industrial restructuring and activation of the National Renewal Fund. More or less the same tasks have been set out in the Discussion Paper to be handled in the next three years.

3. Economic Reforms in the Mid-stream

Given the nature of conditionalities and pre-emptive reforms carried out by a recipient country, it is clear why government is setting up Committees for everything. To appreciate the two years of reforms, it is worth looking at the linkages between different committees and the policy the government wants to adopt in the medium term.

The government is making farm sector a major vehicle of growth for the economy in the coming years. It is in this backdrop that some decisions of the government should be analysed. The initiatives include change in export and import policy, the draft Agricultural policy, and increase in procurement prices. But, Indian agriculture is bedevilled by escalating expenditures on a broad array of subsidies and low rates of cost recovery. This has crowded out public expenditure on efficient operations & maintenance, and new investments in the sector, according to the World Bank has observed. In a document on India's progress and challenges in economic transition, the Bank said that the private investment in the farm sector had declined since the early 1980s and yields of some traditional crops were on the wane.

Yes! says the discussion paper. The government intends to phase out the fertilisers, water and electricity subsidies to have enough resources which can be spent on further investment in irrigation, rural communication and control of land and water degradation. Failing to do so would be harmful to farmers as uninterrupted supply of the subsidised input cannot be ensured. Furthermore, in the revised Agricultural Policy, high priority is attached to the establishment of export oriented units in agriculture sector. The definition of capital goods has been widened to include capital goods used in agriculture and allied activities to give a boost to agricultural exports and productivity.

The discussion paper has reiterated the findings of many studies that private investment depends on the upkeep of public infrastructure. One of the reasons is that private investment is largely confined to investment within individual farms, leaving large investments to public sector. This has made agricultural investment dependent on public investment. How to tap and pool private investment in large agricultural projects is an issue which requires serious discussion? One way of reducing tension caused by reduction in input subsidies is to present it as a part of large package where money withdrawn from input subsidies would be put into large projects which shall help the farm sector.

The government has set up a 13-member task force under the chairmanship of AS Kahlon to study the entire gamut of terms of trade (ToT) between agriculture and other sectors. The ToT involves comparison of the prices at which the farmers buy the inputs and other items from other sectors and the prices at which they sell their produce to them. If the ratio is above 100%, it is unfavourable to agriculture, implying capital outflow from agriculture sector to the rest of the economy.

Having influenced the Central Government's fiscal reforms, the Bank is now turning its attention to the need for improving states' fiscal performance. They have listed five options for the State governments to ease fiscal crisis faced by the States:

a. Gain control over the wage bill.
b. Increase electric power and irrigation sector charges to increase cost recurring rates.
c. Greater emphasis on operation and maintenance of irrigation facilities, roads and other social sectors.
d. Better utilisation of available tax sources, namely, agricultural taxes and property taxation.
e. To weed out low priority projects which cannot be completed early.

How to gain control over the wage bill is still searching for an answer. All the measures suggested by normative economic theory are labelled as unworkable for Indian conditions. It is easy to talk about an Indian solution but difficult to deliver it. Nevertheless, in other areas progress is being made. For example, it has been decided to stop coal supplies to defaulters in line with Coal India Limited's (CIL) cash and carry policy. The CIL has signed a Memorandum of Understanding (MOU) with the Uttar Pradesh State Electricity Board for prompt payment. The MOU provides for payment of Rs.50 crore every month, of which Rs.42 crore will be for current coal purchases and the remaining Rs.8 crore for meeting the dues. Mr Panja, State Minister for Coal says any default in payment would attract a penalty of 18% interest on the dues.

Progress in other areas can be seen from the recent measures taken by the government to increase exports. These are the unification of the exchange rate, earmarking 10% of the net bank credit for the export sector, cut in interest rates, reducing tariffs on capital goods, components and industrial raw materials and special tax treatment for export profits. In view of increasing export of agricultural commodities, the Commerce Ministry has abolished minimum export price of certain commodities and has allowed export of wheat, buffalo and goat meat. On consumer goods front too, consistent with the recommendation of the Chelliah Committee on tax reforms, licensing restriction would be phased out and appropriate tariffs may be imposed. The Chelliah Committee had recommended a tariff rate of 40% to 50%.

Wind of change is blowing through the steel industry and it may well play a crucial role in India's industrial profile. The decontrol of steel in November 1991 has seen a spurt in proposed investment in this industry to the tune of Rs.40,000 crore. This amounts to roughly 20% of total investment expected to go in the steel sector. This is a proof that control and licensing distorted the allocation of resources in the economy and decontrol and delicensing has paved the way for full use of natural resources and labour.

Sectoral reforms in the financial sector are moving gradually. As part of the financial sector reforms the RBI has allowed banks to close unviable branches in non-rural areas. Further, the RBI has allowed commercial banks to sanction term loans upto Rs.50 crore for an individual project. The banking system as a whole can now sanction loan upto Rs.200 crore for an individual project as against Rs.150 crore or 25% of total term loan assistance earlier. It is now felt that if term loans and working capital were made available to the borrowers for smaller projects by the same institution, it would improve the quality of pre-sanction credit appraisal and post-sanction supervision over the borrowing unit. The RBI has allowed commercial banks to invest balance in their foreign exchange accounts in money market instruments abroad and they can provide foreign currency loans to Indian parties from the foreign exchange balance in various accounts. As banks are asked to bear the burden of exchange fluctuations since April 1993, it was imperative to give them opportunity to gainfully employ the balance in their foreign exchange accounts.

The merger of the New Bank of India (NBI) with the Punjab National Bank (PNB) opens a new chapter in the public sector. This is in line with recommendations of the Narasimhan Committee report regarding the restructuring of the banking system in India. Further, the interest rate structure, as recommended by the Committee, is gradually moving towards market determined rate. The annual report of RBI for 1992-93 says that the interest rates on government securities are close to market rates and close to the realm of substitutability. The bank is expected to announce one of its rates as the reference rate.

Furthermore, the Union Cabinet has approved the proposal to amend the Banking Companies (Acquisition and Transfer of Undertakings) Acts which will allow public sector banks to raise resources from the market to improve their capital base. It is reported that the SBI and the EXIM Bank are already planning to enter the market to raise resources through various debt and equity instruments.

However, the reverberations of the Scam are still being felt. The telecommunication, railways and power sectors have failed to place privately their bonds with the financial institutions as they are strictly adhering to the RBI guide-lines. Therefore, these industries are placing their bonds overseas and seem to be attractive to FIIs at 16% to 17% minimum rate of interest.

The government has begun talks with the World Bank on a $500 million loan to help financial sector reform. The outcome of discussion with the World Bank team in August 1993 has encouraged the ministry officials. The Asian Development Bank (ADB) loan of $ 250 million linked to reform in the capital market is in advanced stages. Although, minds of the government and the bank meet on the logic and desirability of reforms; the problem is on the sequencing and timing of reforms. In a nutshell logic of the reforms is to make transactions in capital markets transparent with adequate protection to the investors. By October end India would know whether it has got the ADB loan or not.

'Common' investor perceives that the new liberal policy has benefited more the existing foreign multinationals than the new entrants as they have increased their stakes in the existing enterprises mainly for expansion, the reason being that they are more familiar with the environment and know the market potential. Accepting this itself has given rise to competitive environment for domestic producers. Before domestic producers face foreign brands in the market place, they are given a taste of products being produced by their old competitors using new or improved technology. The economy is going to benefit more as dispersion of new technology would be wide spread.

The proposal for foreign institutional investors to set up non-banking financial companies has been shelved by the government. Nevertheless, prodded by international lending agencies, the government has realised that the performance of state owned insurance companies has been dismal. A number of foreign companies like Sunlife Insurance Corporation, Royal Insurance and the American Insurance Group are waiting in the wings. Several companies in India are also interested in entering this new area. A regulatory system will have to be put in place to provide guide-lines to the private sector insurance companies. Though the Finance Minister has asserted that the government is not considering any proposal from any foreign insurance companies now, he said that during the discussion with the insurance authorities, he got the impression that the industry was in a position to face international competition and challenges and was confident of bringing the Indian industry on par with international standards.

With the introduction of new players, it is believed that policy holders will get new products at competitive prices and services will improve. As General Insurance Corporation of India (GIC) and Life Insurance Corporation of India (LIC) have to invest 80% of their money in low-yielding government securities, premiums have to be high. On the other hand, if the pre-emption of the funds is brought down to 25% level, and as yield on government securities is improving it will generate a large proportion of non-premium income which shall go a long way in making risk protection regime more cost effective. The RBI Governor C.Rangarajan has conceded that there is a need to grant insurance companies more operational flexibility and the freedom to take investment decisions. The Malhotra Committee is looking into the reforms in the insurance sector. Privatisation and new competition could be a stepping stone in making the insurance sector competitive but for the same reasons as in the case of the banking sector - job security amongst the employees and powerful employee unions - this route cannot be taken outright. However, disinvestment in the state owned companies, steps to improve operational efficiency and the freedom to take investment decisions are expected to be recommended.

The Malhotra Committee's brief reflects the government's serious intention of introducing competition in the insurance sector. The Committee is to suggest changes in the structure so that customers could be provided with high quality of service and a variety of products. It is also going to look into the question of desirability of private sector firms in the insurance sector and if they are allowed, then what should be the financial criteria to govern their entry. It is also going to suggest regulations and a regulatory body for the industry. Lastly, it is to examine the investment pattern of GIC) and whether it should be broken into four subsidiaries. The

Committee's recommendations are likely to trigger off debate as some stake holders would lose. GIC employs about 83,000 employees and LIC employs little over 100,000 people. The Indian Merchants Chamber has mooted disinvestment of more than 50% of the shares owned by the government in both LIC and GIC.

On the industrial sector loan from multilateral agencies, the government is not showing keenness as reforms are politically sensitive. Given the fluid situation at present, government does not want to disturb it. The reforms call for changes in labour laws including exit policy, dereservation of small scale industry, amendments in the Urban Land Ceiling Act and changes in the Sick Industrial Companies Act in line with the Goswami Committee's report.

Much of the future reform agenda pertains to areas falling under the jurisdiction of state governments. Reforms and deregulations at the Centre are not matched at the states level. Labour laws, land ceiling act, rate for electricity and water to farms, bankrupt state electricity boards etc. all lie in the domain of the state. They can be pushed up to a point, but better strategy would be to let States compete among themselves. Policy decision on substantive aspects of the Goswami report would be taken in by September 1993 is a dream - unlikely to come true.

A recent study of World Bank outlining Indian reform programme suggests that PSE reforms must be intensified, though it agrees that adjustment in trade and industrial policies, combined with reduction in budgetary assistance is likely to increase the financial difficulties being faced by public sector enterprises. To alleviate this, the study suggests that more operational and financial autonomy should be given to PSEs which are going to be retained in the government sector. But, PSE reforms are being forestalled by labour unions. For example, five unions of workers and officials namely Indian Telecom Service Association, Junior Telecom Officers' Association, National Federation of Telecom Employees, Federation of National Telecom Organisations and Bhartiya Telecom Employees Federation have demanded removal of Mr N.Vittal, Telecom Commission Chairman designate. It is believed that the unions want to protect the monopoly of Department of Telecommunication in basic telecom services. To protect their anti-consumer empire, they may resort to go slow, work-to-rule and strikes etc. However, the representatives of industry and consumer protection groups consider him as the great hope because of his track record as Chairman of Gujarat Narmada Valley Fertiliser Company and as Electronics Secretary.

On the labour market reforms including company law reforms more discussion is likely to take place sometime this year before they are implemented. The government knows that a spoonful of sugar is not going to sweeten the reality, some drastic actions are required on this front. Political parties busy on the hustings first want to test their strength in the polls before claiming the mandate to take on the unions. However, the opposition party leader, Mr L.K. Advani has reiterated his pro-liberalisation stand, but he disagrees with the sequencing of the reforms.

As the Damocles sword of a hung Parliament is hanging on the ruling and opposition parties, both are playing the game of 'wait and see'. As the government has done previously, it is likely to take the recourse of accelerating the pace of reforms which would be of liking to multilateral aid agencies and developed countries. However, the pace would critically depend on convincing trade unions over the effect of the reforms on employment, wages and other benefits to their members and illustrate to domestic industry and business that the foreign capital would not have an unfair advantage over them. The government seems to have one major plank and that is of economic policies. People in rural areas are by and large happy with the hefty increase in procurement prices and urban wage earners, too, have got a respite from the onslaught of spiralling inflation. The pace would also depend on how the threatened strike by the employees of Bank and Financial Institutions' is handled in November. The choice between slow down and acceleration of the reforms shifted in favour of the latter has reached a stage that a slow down will only worsen the situation and strengthen the opponents of the reforms.

There should not be any doubt that the government has prepared a set of policy which includes reallocating public expenditures from subsidies to investment, removal of domestic market impediments, and greater integration with world markets and rationalising price support and stock prices. To attract American investment the government even advertised in the Washington Post its policies and assured them that India will reduce tariffs, moderate tax rates and improve banking system.

Policy makers are well aware of non implementation of the reforms. The Ministry of Industry commissioned Price Waterhouse and Co. to undertake a comparative study of the environment for foreign direct investment (FDI) in select Asian countries. The study found that the Indian policy and regulatory environment is comparable with most of the countries in the region, but India has the highest rate of corporate and individual taxes. Further, in terms of all the State level and other secondary clearances required, India has more such clearances requirements than most countries in the region. Surprising revelation is that the new economic environment has not reduced cost and time taken to implement the project substantially. The reason may be that the reforms have not been extended at lower levels of states and local bodies. Their findings that the MNCs are wary of bureaucracy is corroborated by a survey conducted by the Economist Intelligence Unit -- a division of the Economist newspapers.

At intellectual level too, government would like to win the battle of ideas. Two noted Indian origin economists - Bhagwati and Srinivasan - have written a paper on "India's Economic Reforms". The paper agrees with all the reforms which have been suggested by Narasimhan Committee, etc. Moreover, it is bold in suggesting the pace of future reforms. Some of the important suggestions made in this paper are:

a. Liberalisation of consumer goods imports must also be on the agenda.
b. Privatisation of PSEs should be accelerated. Government should retire some of its debt from the proceeds of privatisation programme to reduce the interest rate burden in the Union budget.
c. Revenue expenditure rather than developmental expenditure should be trimmed. In fact, developmental expenditure should be increased to improve the quality of human resources and future competitiveness.
d. States should be allowed to give licenses to set up industries in core sector. As states cannot use political clout to have industries allocated to them the allocation of industries would come through competition among States.
e. The Bureaucracy is still a problem and state level restrictions are still in place amounting to no effective change in industrial and trade licensing.
f. RBI should be given autonomy.
g. India should join one or more of existing and emerging trade blocs as this would give incentive to MNCs to come and set up a shop here.

The paper suggests that India should support the GATT Uruguay round and should become a member of a free trade zone. As the free trade zone in America and Europe is going to hurt exports from India, it is imperative for India to become a member of a regional free trade block like Ascan Free Trade Area so that dependence on Western Markets is reduced.

The first best solutions are not available to government due to existing market imperfections, externalities and the political realities, therefore, the government is following a gradual policy of liberalization. Reforms in the trade sector and financial sector are being introduced continuously. Delicensing and decontrols are bearing fruits now. But reforms in labour sector are moving at a snail speed. Yet one has to concede that policy makers know that if the reform process is stopped now, it would be a long mad dash to catastrophe.

4. World Economy

Growth in the G7 nations is likely to be around 1.5% in 1993. North America will account for virtually all the growth in the G7 this year. The US has shown a halting growth in the first two quarters of 1993. The US economy grew at a sluggish 1.6% annualised rate in the second quarter. Although strong signals of confidence of both business and consumers are not emanating -sparks of some optimism glow from time-to-time.

In Germany, the fortunes of industry are in free-fall, and there are little indications that it will improve before 1994. At that time too, economy is expected to grow by 1.5% only and inflation would fall under 4%.

Japan's economic problems at present stem from the rise of Yen, the fall in tax revenues and an increase in taxation. The stubborn weakness of consumer spending continues to pull private sector demand into recession. The economic case for a tax cut is strong, but it is being opposed by the Ministry of Finance. A period of political instability now seems likely as a result of the LDP's failure to retain office after the elections.

Prospects for the British economy are looking brighter and the Bank of England Bulletin has painted a golden scenario of low inflation and steady growth of the UK economy until 1995. Furthermore, it suggests that the businesses which have survived recent recession are in better place to reap the benefit of booming economy as productivity is high and increase in wages is low.

The fall-out from the collapse of the ERM system is that Europe may grow as much as 1.5% in 1993 and about 2.5% in 1994. The UK economy is likely to benefit from this as well. It is expected to grow by 1.7% in 1993 and about 3% in 1994. If sterling £ appreciates against DM, there are good chances that a further cut in the interest rates by one percentage point may be made before the budget (November 30).

5. Forecast

The present forecast takes into account the changes wrought in the Indian economy in the first quarter of 1993-94 financial year and the tax changes expected in the union budget 1994-95. The growth prospect for 1993-94 is only 4.5% and the inflation rate (WPI) about 6.9%.

6. Exogenous variables

6.1 World Interest Rates

The ERM is dead for all practical purposes. The 15% band, either side of the central rate, is almost meaningless and weaker countries can easily afford to cut their interest rates to give a kick start to their economies. French franc and DM unity at the altar to become one have got separated in the aisle itself. Thus monetary part of the Masstricht treaty is dead, although Germany and France hope to have new bands from January 1994. Next year's election in Germany may change the whole thing as democratic parties are not expected to gain easy victories. And then, in 1996 when Europeans start negotiating Maastricht II, John Major may find the most powerful alley on his side for a 'continent of democracy' rather than 'United States of Europe with Delor-Dollar' as its currency. Anyway, under no circumstance Germany wants to give up its stable currency. For them trading stable currency for something else is not on agenda. The reason for the break down of the ERM system is that it shifts the burden of adjustment from the exchange rate to real variables like wages and productivity. The dilemma is that the system uses unemployment to alter attitudes among labour and closures to allocate resources.

British exporters have welcomed the revamping of the ERM and hope that interest rates will fall sharply across Europe in the next few months as the recession-hit governments take advantage of the free float of the currencies to boost their economics by reducing interest rates. The Bank of Japan is easing gradually, so is French interest rates. Bundesbank, at last, cut its discount and Lombard rate by half a percentage point in the first week of September and their move is followed by other European countries.

No doubt that decoupling of European economies from Germany will enable France and its neighbours to lower interest rates. Although Gallic pride still not ready to concede that the idea of United Europe with single currency is in intensive care unit gasping last breath of life, weaker currencies are expected to depreciate making their exports competitive.

6.2 World Trade

The Tokyo Deal which emerged from the G7 nations deliberations is supposed to reinvigorate the Uruguay talk. It was agreed that the trade barriers would be brought down substantially, which Americans have labelled as biggest tariff cuts in recent history. These tariff cuts are the ones imposed on the manufactured goods, which are anyway very small. The hype is good from psychological point of view but it is without substance. Nevertheless, if the tariff cuts materialise, it would give a nudge to the world trade. More contentious issues are in agriculture and services sector in the GATT talk, where no progress has been made. French are likely to veto the deal hammered out between European Community and the US government. Compared with the last forecast, world trade growth is expected to increase by one half percentage point in 1993. Although protectionist walls are being created by countries, overall trade growth is likely to get on its long term average of 6% per annum.

Table 1: Exogenous Variables

	1991	1992	1993	1994	1995	1996
World						
Trade growth (%)	1.5	1.3	3.2	5.8	5.8	6.0
Real Short-term Interest Rate	3.1	2.0	2.0	2.8	3.0	3.2
Real Long-term Interest Rate	5.4	4.2	3.8	3.5	3.5	3.5
O.E.C.D. Inflation	4.3	3.0	2.8	2.9	2.9	3.0
Crude Oil($/barrel)	18.3	18.4	18.0	18.5	18.5	18.5
Domestic						
	91-92	92-93	93-94	94-95	95-96	96-97
Rainfall (% of normal rainfall)	92	94	100	92	92	92

Table 2: Forecast

	91-92	92-93e	93-94f	94-95f	95-96f	96-97f
GDP growth (%)	1.2	3.1	4.3	6.2	6.4	6.6
WPI (%)	12.8	9.5	6.9	6.0	5.7	5.5
CPI (%)	13.9	12.5	7.8	6.8	6.3	6.0
Exports (%GDP)	7.2	7.7	9.2	9.5	9.8	10.2
Imports (%GDP)	7.8	9.1	10.1	10.5	11.0	11.4
Current a/c (%GDP)	-1.0	-2.4	-1.6	-1.8	-1.4	-1.2
Current a/c ($ bill)	-2.9	-5.6	-3.9	-4.4	-3.4	-2.9
Exchange Rate (Rs/$)	24.5	31.5	31.5	32.6	33.4	34.0
Production (growth p.a.):						
Agriculture	-2.4	3.6	3.0	2.4	2.3	2.3
Non-agriculture	2.8	3.0	4.9	8.1	8.2	8.5
Investment (% gdp):						
Private Sector	13.4	13.2	15.2	16.0	15.8	15.9
Public Sector	10.9	9.5	8.7	8.2	8.1	8.0
Govt. expdt. (%gdp) (Central + State + UTs)	30.6	31.5	31.2	31.0	30.8	30.7
Fiscal deficit (%gdp)	6.0	5.9	5.7	5.2	5.2	5.2

e - estimated figure f - forecast figure

6.3 Oil Prices

Over-production by some members of OPEC continues to swell the supply and put a downward pressure on the prices of crude oil. The OPEC's Compliance Committee has warned its members that the present downward trend in prices, unprecedented in recent years - both in magnitude and duration - will continue to make recovery much more difficult and drastic measures would have to be taken now to halt the slide. They are also lobbying to block UN-Iraq deal and, if the deal comes through, they would like the UN to monitor its output and prices, so that it does not hurt other producers.

Nevertheless, the overflowing stocks and overproduction of crude oil suggest that crude oil prices are going to remain stable in nominal terms in the medium term. The oil prices in $ terms have been reduced marginally for the year 1993.

6.4 Domestic Rainfall

The monsoons played taunt with farmers. The wet spell of July was followed by the dry spell of August in some parts of the country. In September rains have given much awaited relief in the area. Two months of monsoon rains have adequately covered nearly 75% of India's cultivated land. Except in some pockets of the country rains have been better than expected. Overall by the end of September rains are expected to be 100% of normal rainfall.

7. Output

7.1 Agricultural Output

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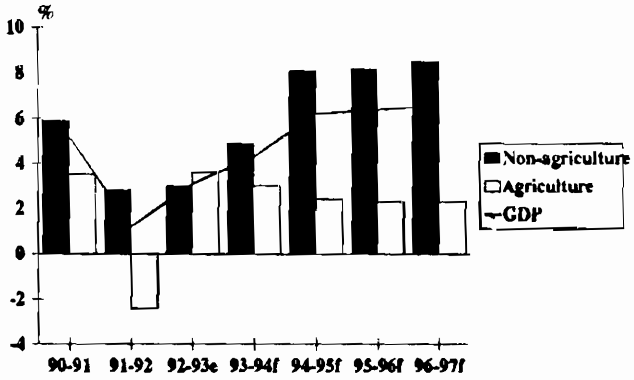
Rainfall during August 1993 was deficient in many parts of the country. However, good rainfall in the first two weeks of September 1993 is encouraging for *kharif* crop and would be beneficial to *rabi* crop. Production of *kharif* foodgrains in 1993-94 is expected to be 103 million tonnes, against foodgrains production of 99 million tonnes in 1992-93. Fall in production of groundnut in Gujarat is going to be made good by a bumper crop of soybean, sesamum, sunflower etc. in Madhya Pradesh. Assuring a normal growth in *rabi* crops, the overall agricultural production during 1993-94 is expected to show an increase of 3% as compared with an increase of 3.6% in 1992-93

Growth (% p.a.)



The procurement/minimum support prices for the *kharif* crops have been raised sharply. Though increase in some cases is not as sharp as it was last year, a substantial increase has been made.

Given the subsidies to fertiliser industries so far and its high cost structure, it looks that this industry will face choppy waters in the next few years. Keeping this in mind, the government has agreed to extend subsidy to phosphatic fertiliser this year as full convertibility of the rupee would increase the price of imported phosphatic fertilisers further. It is reported that in the last *rabi* season consumption of phosphatic fertiliser reduced by as much as 30%. But uptake of fertilisers is normal this year from co-operatives which are authorised to sell subsidised fertilisers.

7.2 Non-Agricultural Output

Among the three major sectors within industry, output from the electricity sector is considered a basic input for almost all industries. Measure to augment the generation of electricity has got a shot in arm as a five-year tax holiday is declared for the power sector and foreign investment is being encouraged. The idea that private sector cannot raise funds for core sector like power, steel etc. has got a decent burial. Private sector commitments to power sector have been phenomenal. More resources have been earmarked in the last six months by the private sector to the power sector than what was planned by the planning commission in its eighth five year plan.

In the first three months of 1993-94, total electricity generation recorded an increase of 8.4%, coal output 5.4% and cement 11.6%. With the likely inflow of substantial foreign investments in the immediate future and loans for the development of Indian power sector being provided by the World Bank and its affiliates, electricity generation in the country is expected to increase considerably in the subsequent years. The Centre for Monitoring Indian Economy projects 7% growth in power generation in 1993-94.

Mining sector - the second important category within industrial sector - has not shown a good growth rate in 1992-93. A dismal growth rate is partly due to December, January and February political disturbances in the country. On account of major technical and structural problems indigenous crude oil production plummeted to 25 million tonnes in 1992-93 as against 30 million tonnes in 1991-92.

Transformation from a 'high cost' industry to one internationally competitive industrial sector can be seen in the improvement of financial performance of the 72 companies in the first six months of this year. Though some sectors like computers, auto ancillaries, petrochemicals are still suffering from the slump in demand, restructure of corporate sector is bearing fruits now.

Large procurement purchases by the government is going to inject sizeable purchasing power into the rural areas culminating into substantial rural demand for manufactured consumer goods. As the adjustment of stocks has taken place in the last two quarters, spurt in the industrial production is very likely in the coming months. The first two months still show a slump in the industrial sector but it is unlikely to continue as industrial production figures of automobile sector shows that it is coming out of the slump. The automobile sector grew by 3.4% in July 1993 and showing signs of definite growth. The RBI estimates that industrial growth would be 4.5% in 1993-94.

In the first three months of 1993-94 the industrial production has increased by 1.9% and service sector is showing a healthy growth rate. However, given the recessionary conditions prevailing in the capital goods sector and a hesitant growth in the manufacturing sector, we expect non-agricultural growth to be around 4.9%

8. Interest Rates and Credit

The increases in investment in government securities by banking sector and proportionate decline in credit implies, that there are fewer borrowers from the banks or it may be that banks are not willing to lend. Both reasons are plausible. The RBI has advised scheduled commercial banks to meet the genuine credit needs of eligible market makers. Demand for bank credit has also moderated not only because companies have access to funds at lower cost but also inventories are leaner due to open import policy. Firms can access credit from overseas and larger companies have access to funds through Commercial Paper (CP).

Bank credit by scheduled commercial banks increasing by 4.1% in the first quarter was significantly lower than 7.9% recorded in the first quarter of 1992-93. The aggregate deposits of scheduled commercial banks increased by 3.5% in this period. This implies the continuance of a tight money policy and the attendant credit squeeze to industry. This is also reflected in the lower growth of money supply. Between March 31, 1993 to July 9, 1993 M3 grew by 6.5% compared to 7.2% in the corresponding period in 1992-93. But the net bank credit to government grew by 17.4% and to commercial sector by 2% against 2.4% and 4.9% rise last year.

Interest cost was singled out as one of the important costs which is going to hinder the export performance in 1993-94. The strategy to swap their debt for equity has paid handsome dividends to many corporations as it has reduced their interest burden. This strategy would continue to be used by corporate sector so long as real lending rates do not come down in the range of 2%-3%. Cutting lending rates have a positive effect on expectations and on entrepreneurs, thereby stimulating investment and growth. On the other hand, the environment of declining interest rates forces entrepreneurs to put off decision on long-term investment.

It is estimated that banks are going to lose Rs.300 crore as a result of reduction in lending rates by 1%. The other side of the coin is that commercial sectors' interest burden is lighter by this amount. But deposits would stay high due to paucity of alternative instrument in the short-term end of the market. Also the fact remains that the large rural network of the public sector banks have started yielding deposits.

The extremely easy conditions in the money market can be gauged by interest rates on CPs. The interest rates further declined from 11%-12.25%, in the first fortnight of August, to about 10.5% in the first week of September 1993. Given the current minimum bank lending rate of 15%, the issuing companies could gain in interest outgo to the tune of 5.0%.

Thanks to the financial sector liberalisation which is moving ahead with a slow speed, the gap between yields on gilt edged securities (around 12 to 12.5%) and the minimum lending rate (around 15%) got reduced to about 2.5% to 3%. This is mainly due to reduction in lending rate on the one hand and increase in interest rates on dated securities on the other. This has also increased the attractiveness of gilt edged securities vis-a-vis loans. The Indian bond market is being viewed favourably by FIIs as the real rates of returns are fairly attractive. In fact, public sector bonds with an average yield of 14% to 16.5% have very attractive returns with almost no risk in the medium term.

The reduction in lending rate from 19% in March 1992 to 15% in September 1993 is an important signal to financial markets that market forces would play important role in determining financial parameters. The 1992-93 annual report of the RBI has stated that "freeing of interest rate is best undertaken in phases" and has stated that "minimum lending rate for categories of advances of over Rs.2 lakh could be discontinued and banks could fix their own prime rate". However, like countries everywhere with a developed financial market, the RBI would provide a reference rate. Further, it is stated that there is a need to give depositors a positive real rate of interest, otherwise funds may flow out from the organised system into the unorganised system. Interest of small savers and economically weak borrowers is not forgotten. The RBI is planning to introduce two-slab structure with one rate being freely determined by the market and one concessional rate which could be two to three percentage points below the rate charged to prime borrowers.

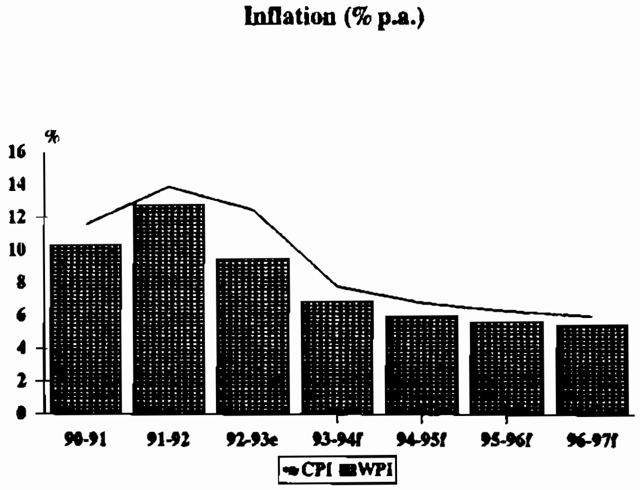
The term lending institutions have revised interest rate in the range of 15.5% to 18.5%. But the rates charged from companies would depend upon the risk perception of institutions. The new rates would be applicable to loans made after September 8, 1993 only.

Although 15% bank rate is historically quite low, real rates are still quite high. Interest rates are expected to be cut in the busy season credit policy by at least one percentage point and another one percentage point by the end of fiscal year 1993-94. The government has a scope of cutting the rate by two percentage points, without giving way to run away demand and fuelling inflation but it is unlikely that such a bold policy would be followed.

9. Inflation

Inflation which was going ballistic last year is under control now. Inflation is all about value of money and inflation is a silent enemy which affects growth. It has put the ruling party on the ropes many a times in the past and hence, there is a political will to keep it under check.

The lower rate of rise in prices in the current year has mainly occurred on account of a high base provided by the index for the corresponding period of the previous year. The point estimate being the percentage variation between index as on a particular week and the corresponding index this year - thus the last year's high base coated sugar on the bitter pill of inflation. This year, the inflation is almost on its long-term average rate.



As liberalisation in many areas is supposed to bring relative prices in line with the world prices, it is encouraging that inflation is under control. Underlying inflation in the economy is quite low due to bumper crop and control on wages. To keep the headline inflation rate under control, prices of foodgrains, sugar and edible oils have to be managed. The sugar mills have assured the government of a steady flow of sugar during the coming festival season. Foodgrains stocks at around 26 million tonnes at the end of June 1993 and a bumper crop this year means that underlying inflationary pressures are well locked up in the can. In addition, the Commerce Minister has assured that emphasis on farm goods exports would not be allowed to cause shortage and thus spiralling prices of farm goods as a dual policy of import and export would be introduced in such a way that there is no shortage of farm goods in the domestic markets.

Some commentators think that as industrial production picks up later in the year, the industries would increase their prices. The prices of petroleum and petroleum products should not be raised in the near future keeping in mind the supply of crude oil in world market and hardening the value of rupee vis-a-vis US $ in the forex market. This is in line with government's stated objective that the prices of petroleum products would not be raised unless imported cost of crude increases. But, a marginal increase in prices of petroleum products, after the November elections, is likely to balance the books.

As announced in the Economic Survey 1992-93 the government would pass on the hike in prices of administered items to either the industry or the consumers. Hence, it is expected that CPI would rise from January 1994 onwards when the stock of new foodgrains, purchased at the new procurement prices is distributed through the public distribution system.

The headline rate of inflation, based on the official Wholesale Price Index, had fallen to under 6% which is a definite improvement in the price situation compared with the last two years. Scanty rainfall in August, in North India, fuelled the expectations of a failure of food and cash crop and thus fanned inflationary expectations. But, September rains have thrown a wet blanket on it as no shortages are expected this year. If it does douse the inflationary expectations, it would further help the economy. However, it seems that average price inflation may be just under 7% this year and would remain around 6% in the medium term.

10. Exchange Rate

The RBI governor without declaring that the present exchange rate policy is that if rupee appreciates in short run due to large supply of dollars in the market, the RBI would buy dollars at a reference rate set by the Bank. But, if rupee depreciates, the RBI would not sell dollars. Probably there is a lesson to be learnt from the French experience. The country has accumulated $ 2.3 billion since April 1993 through the 'passive intervention' of the RBI in the forex market. This has improved quality of reserves as it is no more debt financed.

Rupee has firmed up in the last few months and the sceptics who thought rupee could not stand on its own have been proved wrong. As against the US$ *real* exchange rate has appreciated by 3.5%. And as sterling pound and DM have appreciated against the US$ in the last three months, rupee has also appreciated in real terms.

Pakistan devalued rupee by roughly 9% in July 1993. Pakistani rupee is now roughly Rs.30/$ which is comparable to Indian rupee exchange rate. This may erode some of the competitiveness of agricultural commodities in export market. Rupee value is expected to remain steady until the end of the year. If trade deficit turns out to be larger than $2 billion, rupee may depreciate by couple of percentage points.

11. Trade Balance

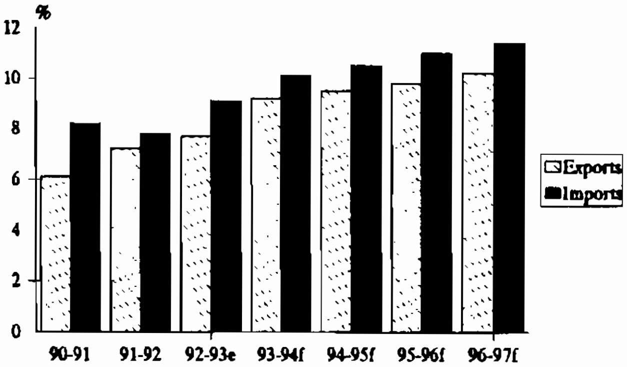
In spite of world recession, exports have done quite well in the first quarter of 1993-94. Exports increased by 27% in $ terms and trade deficit declined to $500 million in April-June 1993. Though exports have made remarkable progress, improvement on trade deficit has been helped by lower demand of imported capital goods and low crude oil prices.

Meanwhile, in terms of a hefty export growth so far in the current financial year and the consequent decline in the foreign trade deficit, the prospects for the Indian economy look promising for the year 1993-94. But a decline in imports during April-May 1993, attributed mainly to the industrial recession is the other side of the story, raising the issue of balanced economic growth. In fact, the government's optimism on the foreign trade front stems from a near 27% growth in exports in dollar terms during the first four months of the current financial year, in the face of meagre 3.6% growth in the whole of the previous financial year.

During the current financial year so far (i.e. between March end and July 30, 1993) forex assets recorded a rise of $333 million. Increase in forex assets is attributed to spurt in exports (27% rise dollar terms during the first quarter of 1993-94), increased remittances, portfolio investments by FII's to the extent of $100 million, foreign exchange brought by foreign companies to increase their equity holdings in their Indian venture.

In 1992-93, the exports grew by 2% on payment basis and imports by 13%, leaving a trade deficit of $5.6 billion. The trade deficit has narrowed in the first quarter of 1993-94 despite a slow down in manufacturing sector. This indicates that the bulk of the growth in exports was in primary commodities, the exports of which had been liberalised in the amendment to the EXIM policy.

Exports & Imports (% GDP)



India's exports during the first four months of 1993-94 fiscal year is estimated to be $ 6.9 billion against $ 5.4 billion in 1992-93, showing a growth of 27%. Imports, on the other hand, showed a decline of 2.7% from $7.6 billion in 1992-93 to $7.4 billion in 1993-94. Trade deficit thus has reduced to $0.5 billion against $ 2.1 billion last year.

Total exports have been $1,980, $1,766, $1,693 and $1,669 million in March 1993, April 1993, May 1993 and June 1993 respectively. Is the export growth in 1993-94 is a "statistical illusion" or boom? Let us look at the economic factors behind the scene.

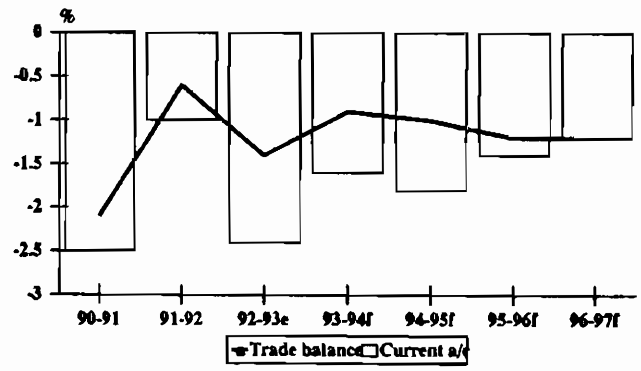
First, exports of engineering goods during the first quarter of 1993-94 increased to $316 million from $309 million in the corresponding period last year or by 2.3%, as against the projected growth rate of 12%. During June 1993 engineering goods exports declined to $129 million from $138 million during June 1992. But these are point estimates. It is true that engineering products volume has increased by 12% only in rupee terms. If prime steel and ferro-alloys are excluded from the figures, the growth figure drops to pitiable 2% only in rupee terms. In fact, in dollar terms, it would turn out to be a decline reflecting recessionary situation in the developed countries.

Second, the delayed execution of export orders could have cheered up the first two months figure, but an increase of 27% in the first four months indicate that exports are finally responding to economic reforms. Despite poor infrastructure facilities and high cost of credit exports have picked up. Therefore, as interest rates come down and world trade starts looking up, it is more than likely that exports would stay on a higher growth track and as producers abroad are increasingly looking at India for sourcing of products, India's export basket should expand even more.

Third, the government cleared 813 proposals of export oriented units (EOU) in 1992 and this year another 310 EOU proposals have been cleared. With some of the projects having already started producing, the export figures in coming years could only show an upswing.

Fourth, horticultural exports have natural advantage in India due to natural advantage of diverse agro climatic conditions, low labour costs and virtually no import needs. Therefore, this sector has been accorded high priority in exports. Thirty four products have been identified by the Ministry of Commerce for exports where possibility of 30% annual growth in exports in value or volume exists.

Trade Balance & Current a/c (% GDP)



The large bulges in debt repayments beginning in 1994-95 and the likely import needs require export growth of about 15% per annum in dollar terms over the next five years. An export target of $40 billion set for 1995-96 can be achieved. To accomplish this target it is necessary to have a country-product matrix approach with thrust on a new basket of products. 3.6% growth in 1992-93 was low due to global recession, domestic fiscal imbalance and inflation. As cited earlier, trade policy has a central place in economic restructuring. The Export-Import policy 1992-97 has eliminated, to a large extent, quantitative restrictions, licensing and discretionary controls. This is more or less in line with the advice given by the World Bank. If the healthy trend continues, it would be a proof of the positive impact of devaluation and full convertibility of rupee on trade account and other export promotion measures.

Despite agreeing with the improvement in export performance, some of the leading independent research organisations in the economic field do not share the government's optimism. A

"Business Expectations Survey" conducted by the National Council of Applied Economic Research (NCAER) reveals a sluggish export growth among businessmen. The survey suggests that the high cost of funds and the world market recession are quoted as the crucial factors affecting exports. Likewise, the Centre for Monitoring Indian Economy (CMIE) said in its pre-monsoon forecast that exports are likely to grow by around 10% and imports by around 15% during the financial year. As a result, the trade deficit is projected to increase to $7.5 billion and the current account deficit to $7.1 billion. However, due to exceptional financing of $1.5 billion from IMF in 1993-94 and comfortable reserve position, the country would not face difficulty in financing the deficit during 1993-94.

Is the trade figure pregnant with some information on trade reforms? Yes, it is. Elementary economic analysis suggests that if people believe that the trade reforms will be reversed in the future, they will tend to borrow heavily today to finance their present consumption. This is a rational strategy if the expected importable goods are to be more expensive in the future because tariffs will be hiked. As imports have not picked up, one can infer that people believe that reforms are not going to be reverted.

The exceptional gap is estimated at $1.8 billion, $2.2 billion and $2 billion in 1993-94, 1994-95 and 1995-96 respectively. The estimates are on the basis of exports growing by 14-15% while imports growing by 10% per annum. If exports grow at a higher rate, the exceptional financing need would come down further. Our forecast suggests that current account deficit would be around 1.6% of GDP in 1993-94 and there may not be a deterioration due to future rise in debt-service ratio. The EFF loan will help the government to meet the gap and maintain economic reforms on track.

12. Public Finance

The RBI credit to government which was increasing at a runaway rate of about 20% in the first quarter has declined to 16% during April-August 6, 1993. Seasonal factors like rise in central revenue is one of the reasons for its decline but another reason is that RBI has resorted to repos transactions of government securities during July i.e. window dressing the credit figures.

The 16% annual increase is more than twice the rise recorded in the same period of 1992-93. But the money supply growth was moderated because of lower growth in bank credit to commercial sector and a sharp increase in non-monetary liabilities of the banking sector. Important question here is - would the Centre lose the grip over inflation?

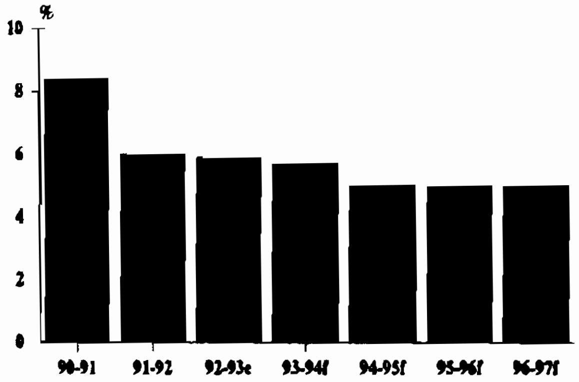
The expectation of flood of imports due to reduced tariffs on intermediate goods have not materialised and it has thrown the Finance Ministry calculation into a tail-spin. In the first quarter the revenue collected was only Rs.4,800 crore, whereas the budget has a target of Rs.27,727 crore in the current financial year. The fall in customs and excise duty collection has meant that there may be a shortage in revenue collection in 1993-94. The PSUs disinvestment shrouded in controversy means that the government cannot get Rs.3,500 crore revenue from PSEs disinvestment.

The first four months of the current financial year have shown a Rs.1,500 crore revenue shortfall from the target. This shortfall is mainly on account of customs duty. The food subsidy, given the hike in procurement prices, would be more than Rs.3000 crore budgeted for 1993-94. In the run up to the state assembly elections, other give away by the government may cost the exchequer roughly Rs.1,500 crore this year. Underselling of PSUs and the brouhaha it has created in the Parliament is making the government nervous about further disinvestment. This time the Finance Minister may have been able to save his skin but he may not be able to do so in future.

Given these facts, one percentage point slippage in the fiscal deficit is most likely. The net impact of revenue shortfall, the expenditure on state assemble elections of Rs. 1,000 crore, give away of Rs.1,500 crore and increased food subsidy would amount to roughly Rs.7,500 crore. The IMF seems to have consented to the slippage in the fiscal deficit target as it is convinced that India is serious about reforms. Targets are means to guide a country on the path of reforms and not ends in themselves.

The government is reducing its dependence on RBI credit and raising money from the market to fund its deficit. It would certainly reduce the dangers of inflation and BoP crisis (as domestic demand is not inflated); but it means higher interest burden on the revenue account later on. This also means, that market determined interest rates cannot be brought down below the level of government bond rates. In a situation where inflation is falling, this means higher real rate of interest which is detrimental to long-term investment. Interest costs in most industries average 4-6 per cent of total costs. Lowering the cost of working capital only would not stimulate the industrial sector, but investment in this sector can. Alas, long-term investment at a ruling interest rate of 17% to 18% is prohibitive. The minimum term lending rate has been brought down to 15.5% but that is applicable to new loan only. The RBI should advise the term-lending institutions to make money cheaper.

Central Government Fiscal Deficit (% GDP)



The RBI's contemplation of firm action by imposing a ceiling on RBI credit to government at twice the estimated figure in the Budget at any point of the year is a welcome sign to manage monetary affairs of the country. If it builds the reputation of a tough central banker, the market expectations of (or scribblers expectations!) flaring inflation now and then would get a permanent set back and this would reduce unnecessary noise in the economic system.

Notwithstanding, this years' fiscal relaxation, the government is quite serious about reducing subsidy on the public distribution system. It has appointed a three member committee headed by Mr G Vishwanathan to review the PDS system with the aim of seeing how the PDS can be properly targeted to deserving people in the country.

Two years of reforms have not percolated to the grass root level in the states. Environment clearance takes inordinately long time. To get water connection, electricity connection or other civic facilities is still filled with officialdom.

The state governments of Maharashtra, Orissa, Haryana and Punjab have presented deficit budgets for 1993-94. Maharashtra's budget deficit is Rs.325 crore, Orissa has Rs.285 crore, Punjab and Haryana have deficits of Rs.83.40 crore and Rs.85.82 crore respectively. Tamil Nadu, Kerala, Assam, Sikkim and Mizoram state governments presented deficit budgets for 1993-94. Tamil Nadu's deficit has been projected to touch Rs.556 crore, Kerala's Rs.82 crore, Sikkim too has a deficit of Rs.27.81 crore, Mizoram's deficit in 1993-94 is Rs.22 crore. These deficit gaps are plugged by a loan from the central government or credit from the RBI. This profligacy of the states is at the heart of forthcoming economic reforms. The RBI has mooted the formation of a states finding cooperation which would raise funds at market related rates of interest and pass on the funds at fixed rates to the states.

13. Investment

Government strategy to remove or rationalise export controls including that on agricultural commodities is moving ahead at full speed. Although businessmen are not very optimistic about cost structure of their products, they are bidding time for any major change. Government is keen on plugging gaps in the country's export oriented infrastructure. The government has approached the World Bank to help in investment in those infrastructure which would improve the infrastructure services to exporters. The future vitality of the private sector can be gauged from the fact that the World Bank is considering to have a window for private projects in India especially the projects in the infrastructure sector like power etc. where project cost is very high.

Power sector investment in the private sector got further incentives from the government when the Cabinet Committee on Foreign Investment took three policy decisions. First, the government would provide counter guarantee against payment obligations of the State Electricity Board. Second, the two part tariff structure would be such that the promoters would be able to get 16% return on their fixed costs. Third, power generation companies would be compensated if raw materials are not provided in time or are of poor quality.

The RBI forecast of investment in the private corporate sector for 1993-94 suggests that total capital expenditure in 1993-94 will be around Rs.31,220 crore, about 21% increase over the last year in nominal term or about 13.3% in real terms. This is on top of about 30% growth in capital expenditure in 1992-93. But, capital goods industry is still facing shortage of orders. The dependence of PSUs on internal and external budgetary resources is as high as 75% and due to planned reduction in the banks SLR, less funds are available. Thus, the failure to raise resources has led to a sharp decline in the investments in PSUs in 1992-93 and is likely to follow the same course in 1993-94. In 1992-93, it dropped by 10% of planned outlay equivalent to 1.1% of GDP.

Why is FDI in India not picking up? First, non-availability of high quality infrastructure, second, corporate tax rate of 65% for foreign firms is significantly higher than the competing nations corporate tax like China (33%), Indonesia (35%), Mexico (35%). Taxation on dividends is also higher in India than in any of these other countries. However, high tax rates are offset to some extent by tax incentives for exports and investment in certain sectors and regions. Another reason is that industries with foreign collaboration in electronics, textiles and consumer goods are not open to automatic approval. So India has lost on reinvestment from these companies into their existing Indian operations.

According to the latest available information, as against the foreign direct investment approvals of Rs.7,392 crore till the end of April 1993 (i.e. during 1991, 1992 and first four months of 1993), the actual inflow amounted to only Rs.1,652 crore. At this level the actual inflow worked out to 22.3% of the total approvals. But the average foreign investment per project amounted to Rs.5.6 crore. This average moved up to Rs.11.9 crore during 1993.

According to 'Business Expectations Survey' of May 1993 by NCAER, confidence of industrial units is moderately strong and they expect economic conditions to improve. About 45% of respondents are likely to undertake investment. Sales are expected to grow by 7.5% in line with improved expectations of production. Majority of the respondents have expressed that the emphasis in 1993-94 would be on foreign collaboration and as high as 76% of respondents are optimistic about technological upgradation during 1993-94. It is competition, both in the domestic and international markets, which is forcing them to use up-to-date technology.

14. Consumption

A pick up in domestic demand, following an improved agricultural performance could provide industry the much needed stimulus in 1993-94.

Consumption of petroleum products is expected to increase by 5.7% during 1993-94. Government's policy to open petroleum sector to private sector is likely to bear fruits in couple of years' time when an aggregate refining capacity of 29 million tonnes in the private sector would come on stream. Consumption for petroleum goods, according to the data available from the Oil Coordination Committee was 49.1 lakh tonnes in May 1993 which was higher by 2.1% than that of 48.1 lakh tonnes during April 1993. But it was lower than that of 50.1 lakh tonnes in May 1992 by 2%. Government is expecting the consumption to grow by 8% in the current financial year.

15. Labour

The Confederation of Indian Industry (CII) is opposed to an exit policy of 'hire and fire' as an exit policy is widely understood to mean. The issue of firing, if at all necessary, should be solved through bilateral negotiations between the employer and employees instead of the employer having the arbitrary right to fire, according to Director-General of CII. But, this is the crux of the matter. For all practical purposes industrial relations in India is a tripartite negotiation, the third party being the government. If government resolves to keep out of the industrial relations the existing laws are sufficient to deliver a competitive industrial sector.

The importance of the labour sector can be gauged from NCAER expectation survey, which suggests that though companies are not planning to change labour force, they intend to control wages to cut cost as one of the strategies to remain competitive. The foreign investors, especially Japanese, have expressed their desire to invest only after changes in labour laws are made in India.

A key issue that the Goswami Committee addresses is the definition of sickness contained in the Sick Industrial Companies Act (SICA). It recommended voluntary rather than compulsory reference to BIFR, so that the time taken to settle the fate of sick units get decided quickly, and labour and capital employed in the enterprise could be redeployed. Is the Goswami Committee Report a disguised exit policy? The report has identified financial sector reforms as the lynch pin in restructuring and reorganising the industrial sector. In the Committee's opinion, the BIFR needs to be given adequate power to wind up sick units under Section 20(4) of the SICA, 1985, as a measure of forcing quick consensus. It has recommended that the BIFR should be turned into a fast track facilitator from an arbitrator to make it credible and efficient. It has also proposed a ceiling on BIFR decision making to be of 150 days.

The Committee's main contention with BIFR is over the definition of a 'sick' unit. It proposes to change the definition of sick unit drastically. In place of negative worth criteria, it should be changed to "default of 180 days or more on repayment" to term lending institutions or irregularities in cash credit or working capital for 180 days or more, to catch any incipient sickness. Another novel proposal is that States should grant exemption under Sections 20 and 21 of the Urban Land (Ceiling and Regulations) Act (ULCRA), for BIFR cases, so that sick units may be able to sell excess land and utilise it in settling outstanding debts and to meet the costs of rationalising the labour force. In line with the Bajaj Committee recommendations on Industrial restructuring, the Goswami Committee has suggested that 25(N) and 25(O) of Industrial Dispute Act should be amended and compensation made for retrenchment in case of closure from 15 days' wages to one month's wages per year of completed service. Trade union leaders, however, have voiced their dissent over the recommendations. The Committee has recommended a package of reforms for both industrial as well as the financial sector. Given the dissent voices being raised by labour leaders, BIFR and others, it seems that the Committee did not take into confidence the members of Tripartite Committee on Industrial Sickness before submitting their report to the Finance Minister.

According to BIFR, industrial sickness is not just a question of liquidity or of creditor relationship. It is often caused by factors and circumstances beyond the control of the promoters, investors and lenders. The BIFR holds the view that the norms suggested by the Committee are too stringent.

In the meeting of the World Bank-Fund at the end of September 1993, the World Bank is expected to outline a scheme to retain and redeploy workers especially textile workers in Ahmedabad; thus, operationalising the National Renewal Fund for the first time.

Poor response to the strike call of Bharat Bandh by leftist parties suggests that workers are more concerned about industry specific issues rather than ideological campaign against liberalisation. The grip of trade unions in organised sector is loosening as independent unions are gaining ground and voluntary retirement schemes are being accepted.

16. Conclusion

The government has an advantage in shifting the focus on economic issues where it has a successful record to boast off. The discussion paper on economic reforms was a comprehensive agenda of action to be taken up by the government in the next three years. The Discussion Paper is more a declaration of government's intention to deepen the reforms and reassure the Fund-Bank and India's donor.

Although, FIIs have just become interested in the gilt edge market of India, large inflows may lead to appreciation in exchange rate and consequent loss of national competitiveness. Maintaining confidence and continuing with the reform of the economy is the key to make the shift to being an importer of investment rather than debt. Export performance will be critical in establishing a virtuous cycle of investment, improving competitiveness and enabling economic growth. Agricultural sector has been growing at a better than expected rate but the decline in investment - public and private - in the sector is bound to have adverse effect on productivity sooner than later.

The government has to make a hard choice whether to accelerate the reforms or to go slow. If the pace is slowed down, band aid can not be applied to the economy in the years to come. Industry and Business are waiting in the wings to exploit the liberalised economy and organised labour is getting restive about privatisation move. There has to be a dialogue among interested parties to point out the consequences of slow growth on employment, wages and poverty, if the reform process is slowed down.

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